

**INTRA-PROFESSIONAL CONFLICT IN THE GREEK AUDITING PROFESSION:
LIBERALISATION AND ITS IMPACT ON AUDITOR BEHAVIOUR**

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DECLARATION

This thesis has been composed by myself and all work reported in it is my own

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ABSTRACT

This study examines the intense intra-professional conflict which arose over the question of the liberalisation of the Greek auditing profession in 1992. The main rival groups in this conflict were a group of indigenous auditors who resisted the liberalisation and local branches of international accounting firms who fought for reform. The critical paradigm on accounting professionalism is used to understand the wider social, economic, and political context in which change in the Greek auditing profession occurred. The analysis shows that the structure of the auditing profession in Greece is the outcome of a dynamic interplay of economic, social, and political forces, at both the national and the international level. In the encounters between these interests, state agencies and professional groups play a key role.

An important theme of the study is to enquire into the practical impact of the liberalisation on the emphasis accorded by practitioners to the performance of various audit functions. Thus, the study also attempts to examine the potential impact of changes which resulted from the political struggle at the macro-level on the behaviour of micro-level actors. The perceptions of auditors, corporate financial executives, and users of audit reports were surveyed through mail questionnaire and personal interviews. The results of the investigation reveal a considerable divergence in the perceptions of the respondent groups, in relation to the effects of liberalisation. This divergence is explained as being the result of self-interested bias. It is suggested that through the responses to the survey respondent groups attempted to advance and promote their own perspective on the auditing profession. The survey results reinforce the conclusions drawn from the historical analysis, by illuminating the deeply political nature of the affairs of the Greek auditing profession and its socially constructed and contextually dependent character.

This study has methodological implications for conducting accounting research in sensitive areas which touch on vested self-interests. The analysis presents evidence which suggests that the use of quantitative mail questionnaires in such contexts is not a wholly effective research tool; it fails to capture important exogenous factors, such as respondents' perceived self-interest, which could significantly influence the responses of participants. The study confirms that the employment of a combination of quantitative and qualitative research tools is a more fruitful approach for conducting research in politically charged contexts.

Finally, the results of the study have implications for audit practice. The findings suggest that following the liberalisation, auditors gave significantly less emphasis to: a) being independent, b) the public communication of audit findings (writing remarks in auditors' reports and 'whistle blowing'), c) the protection of the interests of external stakeholders, and d) the 'true and fair' presentation of financial statements. The results also indicate that increased emphasis is placed by auditors on the provision of Management Advisory Services to audited companies. These significant changes are linked to the economic dependence of auditors on audited companies, which the liberalisation brought about.

"The first step to understanding of men is the bringing to consciousness of the model or models that dominate and penetrate their thought and action"

(Berlin, 1962:19)

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* The prefix A in the numbering indicates that the figure appears in the appendix to the relevant chapter. Non-prefixed figures are inserted in the text.

LIST OF ABBREVIATIONS

AC	Administrative Committee
ACPA	Assistant Certified Public Accountant
AE	Joint-Stock Company (trans.)
CA	Certified Auditor
CFE	Chief Financial Executive
CPA	Certified Public Accountant
EEC	European Economic Community (the forerunner of the European Union - EU)
EPE	Company of Limited Liability (trans.)
EPEL	Greek Experts, Auditors, and Accountants (trans.)
ESEOL	Trade Union of Greek Certified Public Accountants (trans.)
ESYL	National Accounting Council (trans.)
FEE	La Federation des Experts Comptables Europeens
GAP	General Accounting Plan
GNP	Gross National Product
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
K-W	Kruskal-Wallis (ANOVA)
MD	Ministerial Decision
M-W	Mann-Whitney (test for equality of medians)
OEE	The Economic Chamber of Greece (trans.)
PD	Presidential Decree
POL	The Pan-Hellenic Federation of Accountants (trans.)
SC	Supervisory Council
SELE	The Association of Certified Accountants - Auditors (trans.)
SEPEE	Association of Scientific Personnel of Audit Firms (trans.)
SEV	The Confederation of Greek Industries (trans.)
SOL	Body of Sworn-In Accountants (trans.)
TDM	Total Design Method
TO	Technical Office

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CHAPTER ONE

INTRODUCTION

1. Research Objective and Historical Overview

This thesis is concerned with the Greek auditing profession, a subject which has received very scant attention in accounting academic research. The principal research objective is to examine and analyse the intense intra-professional conflict over the organisation of the Greek auditing profession which emerged in the 1960s and peaked in the 1980s and 1990s. One of the strongest advocates of change were local branches of international accounting firms. On the other hand, a major group of indigenous auditors who had the *de jure* monopoly of statutory audits opposed the reform of the auditing profession. The outcome of this conflict was the liberalisation of the market for statutory audits in Greece in 1992. This legislative reform was the result of a successful lobbying of the Greek government by the local branches of international accounting firms, assisted by the Confederation of Greek Industries and other local and international actors. The emergence and development of the Greek auditing profession is considered within its wider social, economic, and political context - the essential backdrop against which change occurred. An important part of this study is to inquire into the impact of liberalisation on the emphasis accorded by practitioners to the performance of various audit functions. Thus, this research study utilises analysis at two levels. It examines whether change in the organisation of the Greek auditing profession, introduced as a result of political struggle between macro-level actors, impacted upon the behaviour of individual auditors (micro-level actors).

As will be explained in later chapters, the history of statutory corporate auditing in Greece essentially began in 1955 when the Σώμα Ορκωτών Λογιστών – ΣΟΛ (Soma Orkoton Logiston - SOL, trans. Body of Sworn-in Accountants¹) was established by law, although auditing was prescribed since 1920. SOL was instituted as a quasi-state auditing organisation with centralised control over audit assignments and enjoyed a monopoly in the

¹The name "Body of Sworn-in Accountants" suggests a body of accountants who have taken the oath to fulfil their duties faithfully. The tradition of oath taking has antecedents which may be traced to the Ancient Athenian Democracy of the fifth century BC (see Delmouzou-Peppas, 1963). The term "Institute of Certified Public Accountants of Greece" has been adopted as a more meaningful interpretation of the Greek into English.

market for statutory audits. The particular organisational structure of SOL was a reaction to an alleged market failure in the provision of auditing services in Greece. The institution of SOL was an attempt to secure an acceptable level of audit practice, which was deemed necessary for the economic development of the country in the aftermath of a ten year period of war. The creation of the Greek auditing profession was not the product of the interplay of free market forces, but the result of direct state intervention precipitated by the demands of international economic organisations. The blueprint for the organisation of SOL was masterminded by British chartered accountants who, as members of the British Economic Mission, arrived in Greece after World War II. One of the objectives of the British delegation was to improve the standards of accounting practice in Greece, in order to ensure the proper use and repayment of foreign funds and loans emanating from the American Marshall Plan.

Shortly after the establishment of SOL in 1955 a struggle commenced for the liberalisation of the newly organised profession. Various interest groups in the wider accounting establishment and the business community participated in this conflict. As a result, SOL languished under the threat of liberalisation throughout its life. The main rival organisation to SOL was Σύλλογος Εγκεκριμένων Λογιστών Ελεγκτών – ΣΕΛΕ (Syllogos Egecrimenon Logiston Elengton - SELE, trans.: Society of Certified Accountants-Auditors). SELE was established in 1979, following an initiative by partners in international accounting firms operating in Greece. Until the liberalisation of the Greek auditing profession,² these firms concentrated on tax and management consultancy. They also did some optional audits on behalf of foreign enterprises which had invested in Greek subsidiaries. However, members of SELE were prohibited by law from conducting statutory audits.

²It must be made clear that the term 'Greek auditing profession' is conventionally used in this thesis to denote the institutionally defined group of auditors entitled *de-jure* to conduct statutory audits of company financial statements. The use of the term should not be regarded as acceptance or endorsement of 'professional' claims on behalf of any group of auditors (see also Robson *et al*, 1994, p. 528; Sikka and Willmott, 1995a, p. 548).

Following a long period of intra-professional struggle over the jurisdiction of corporate statutory audits (Abbott, 1988), the Greek auditing profession was liberalised by enabling legislation in 1992. It is important to emphasise that the liberalisation of the profession concurred with a dramatic shift in state policy towards deregulation, privatisation, and less involvement by the state in the management of the economy. Under this climate of radical political change on a New Right agenda, SELE managed to lobby the incumbent government successfully to secure the reform of the auditing profession. The essence of the reform in 1992 was to introduce competition between auditors in the market for statutory audits. Auditor appointment and fee determination became a matter to be negotiated freely between auditors and audited companies. Under the pre-1992 arrangement both these issues had been controlled by SOL's Supervisory Council which was a legally independent authority. The organisational and remunerative arrangements were such that individual certified auditors of SOL had little economic interest in seeking audit appointments.

The legislative reform of 1992 also abolished SOL and established the Σώμα Ορκωτών Ελεγκτών – ΣΟΕ (Soma Orkoton Elengton - SOE, trans.: Body of Sworn-in Auditors), a new institute of certified auditors. All SOL auditors became ex-officio members of this institute. In addition, SELE auditors and a few other practising accountants who had previously been excluded from the practice of statutory auditing were invited to become SOE members. It is important to emphasise that the audit reforms introduced in 1992 did not have an impact on the functions which auditors were required to perform. In other words, the legal framework under which SOL had operated remained intact. However, the liberalisation had a potential effect on altering the emphasis accorded by auditors to the performance of particular functions, and this forms a significant part of the analysis.

The liberalisation proved to be very contentious and met severe resistance by SOL and a number of other parties. The main argument advanced against the reforms was that in the new competitive environment statutory audits would become very lenient. The contention was that, under the new arrangements, auditors would tend to serve the interests of their

clients rather than those of the public.³ On the other hand, SELE and supporters of the liberalisation argued that competition in the market for audit services would greatly upgrade the quality of audits, the reliability of audit reports, and the overall standard of accounting practice in Greece.

Following the liberalisation of the auditing profession in 1992, the membership of SOL split into two parts. The majority of them remained together and established SOL SA,⁴ a private audit company. A number of members, however, broke away from SOL SA and established a few small independent practices (hereinafter EX-SOL). Thus, three professional groups of statutory auditors may be discerned in the post liberalisation period: SOL SA, EX-SOL, and SELE.

The purpose of the rest of this chapter is to lay the theoretical foundations on which the thesis is based, namely the critical paradigm on the accountancy profession. The critical perspective in accounting has developed over the last two decades and draws upon literature from sociology and politics. One of its concerns has been the emergence and development of the accounting profession in capitalists societies. Critical commentators have located the study of the accounting profession within pertinent social, economic, and political contexts and have highlighted the self-interested nature of professional groups. The critical perspective on accounting professionalism is considered as an extension of critical social theory.

³The term 'public interest' is a relatively ill-defined theoretical construct. In this thesis the term is used to denote what auditors are required by legislation to do in the context of statutory audits. Underlying this terminology is the hypothesis that each piece of legislation aims at protecting and advancing the weighted interest of all social actors, that is the 'public interest'. From a practical point of view it seems that the content of the term is to a large extent shaped and expressed by the priorities of state policy through the enactment of legislation. For a discussion on the concept of public interest in the context of accounting see Willmott (1989).

⁴The full name of SOL SA was Συνεργαζόμενοι Ορκωτοί Λογιστές ΑΕ – ΣΟΛ ΑΕ (Synergazomenie Orkotie Logistes SA - SOL SA). The reason for choosing this name was that its shortcut -SOL SA - denoted that the audit company was the continuation of the institute of SOL.

This chapter addresses six areas. First, a brief description of the origins of critical theory is given and its basic tenets and characteristics as social theory explained. Second, the critical sociological approach to the study of professionalism is explained and structurally analysed. Third, the critical accounting literature on professionalism is introduced. Fourth, the principal themes of critical accounting literature on professionalism are drawn together, and their relevance to the study of the Greek auditing profession is explained. These themes form a set of theoretical guidelines on which the thesis is constructed. Fifth, the research methods employed in the study are presented. Finally, the significance of this study is highlighted, and the structure of the remainder of the thesis is presented.

2. Critical Social Theory

Critical theory, as a philosophical tradition within social theory, is a relatively modern phenomenon. Its origins are often traced to the formation of the Institute of Social Research in Frankfurt in 1923. Critical theory developed from the idealism of Hegel and has been mainly influenced by the writings of Marx and Weber (McCarthy, 1978; Held, 1980; Outhwaite, 1994). Critical theory places emphasis on historical analyses of social evolution as a means of understanding society and its institutions. It is mainly concerned with illuminating the web of connections linking various social actors and the structure of values and power relations which underlie social phenomena. Critical analysis, in contrast to positivism, does not attempt to generate more refined predictive models of a depoliticized object-world; its primary interest is deep understanding and explaining of society and its institutions.

It is accepted that critical theory does not constitute a unified body of knowledge (Held, 1980, p. 14). Rather, it should be interpreted as a tradition consisting of loosely assembled intellectual contributions to social theory construction - a broad church accommodating a wide range of theoretical endeavours. The most common themes identified by critical theorists have been summarised by Held thus:

At a general level it may be said that the founders of critical theory preserved many of the concerns of German idealist thought - concerns, for example, with the nature of reason, truth and beauty - but reformulated the way in which these had been previously understood. They placed history at the centre of their approach to philosophy and society. Yet, the issues they addressed went beyond a focus on the past and embraced future possibilities. Following Marx, they were preoccupied, especially in their early work, with the forces which moved (and might be guided to move) society towards rational institutions - institutions which would ensure a true, free and just life. But they were aware of the many obstacles to radical change and sought to analyse and expose these. They were thus concerned both with interpretation and transformation (1980, p. 15).

Critical theory can be divided into two main sub-streams. The first sub-stream is related to the first generation of writers at the Institute of Social Research at Frankfurt and includes authors such as Adorno, Horkheimer, and Marcuse. This perspective was most heavily influenced by Marx and was preoccupied with diagnosing the ills of modern society and identifying the social changes, which would produce a just and democratic society (see among others, McCarthy, 1978; Held, 1980).

The second sub-stream of critical theory is related to Habermas - the best known second generation critical writer. Habermas, drawing selectively on the work of Marx, Durkheim, Weber, Mead, and Parsons, among others, has embarked upon an attempt to build a composite and comprehensive social theory. Habermas's perspective recasts and reconstructs the notion of critical theory as exposed by the first generation writers (Held, 1980; Giddens, 1987; Layder, 1994; Outhwaite, 1994). The main concern of critical theory is to understand and explain the nature of human action aiming at facilitating social evolution. For Habermas, the evolution of society springs from a dialectical interaction between instrumental and communicative action, in which people as social actors are engaged (Habermas, 1984, 1987). Instrumental actions are sanctions or gratification, force or money used by one person to persuade another, and is motivated by practical concerns: to manipulate the environment in order to satisfy one's needs and wants. Communicative action involves the co-ordination of activities of two or more persons on the basis of shared understandings such that each person tries to convince the other(s) so as the resulting action

is motivated through reason. Communicative action is used by people to control their world through the institutionalisation of rules and norms (ibid.).

Critical theory, as informed by the writings of Habermas (particularly in his *The Theory of Communicative Action*⁵) has two main conceptual pillars relating to research methodology, which are particularly pertinent to this thesis. First, historical analysis is considered central if the emergence and development of society and its institutions are to be fully understood. Historical analysis not only provides insights into the past but also helps to identify the mechanisms which enabled change. Second, critical theory emphasises the significance which human agency (action) plays in the process of social change, but at the same time it does not ignore the role of structural factors as drivers of historical change (Held, 1980; Giddens, 1987; Layder, 1994). These structural factors comprise the wider social context or conditions under which people act, and includes their participation in social or economic organisations and institutions (national or international), and cultural products such as knowledge, language or ideology.

The location of critical theory within the broader streams of social research was recently considered by Laughlin (1995) who also emphasised the strength and relevance of critical theory to social research, and particularly argued for the potential of the critical approach in accounting research (p. 67). Laughlin suggested that critical theory, as informed by the writings of Habermas, occupies the middle position in his classification schema of the continuums of "theory", "methodology", and "change" (ibid., p. 78). High levels on the "theory" continuum indicate the existence of advanced and refined theories of an assumed material and orderly world, which exists independently of the perceptions of researchers. On the other hand, low levels of theory suggest a mind-dependent reality in which generalities are impossible. The "methodology" dimension relates to the actual way of conducting research. At the one extreme, research methods are derived from some theoretical model

⁵This is Habermas's most recent well known work (Habermas, 1984 and 1987). It is worth noting that in these two volumes many of the themes of his previous work recur, usually in a different form - among them Habermas's critique of positivism (Habermas, 1972) and his discussion of the legitimisation of an existing political order (Habermas, 1976).

and, hence, the researcher's subjectivity and bias is irrelevant. At the other extreme, the researcher "... is permitted and encouraged ... to be involved in the observation process ... (he/she) is free-thinking and variable in his or her perceptual skills and rather than seeing this as a problem it is built as a strength" (ibid., p. 67). Finally, the "change" continuum relates to the attitude of the researcher in relation to the desirability or otherwise of social change. The "middle" terrain on this continuum suggests a position according to which certain aspects of the *status-quo* should be maintained while others should be challenged.

A number of criticisms have been levelled at critical theory generally, and Habermas's version in particular (see among other Held, 1980; Giddens, 1987; Mouzelis, 1992; Layder, 1994). Two of these criticisms are of particular significance to this thesis. First, Habermas's critical theory places too much emphasis on the idealist position that human activity is somehow driven towards shared understanding; consensus being achieved on the basis of the best argument (Held, 1980, p. 390; Layder, 1994, p. 199). It overlooks the possibility of failed consensus and conflict, and the inherent distortions in the process of interaction (Turner, 1988). The second point of criticism is that Habermas's critical theory tends to examine human action at the individual rather than the collective or group level. Critical theory, as social theory, does not seem to place appropriate emphasis on the action and strategies employed by key groups (macro-actors), their relationship, the form of their struggle, or how such struggles are related to wider social institutions and their incompatibilities (Mouzelis, 1992, p. 283). Both the above criticisms of critical social theory, however, are appropriately addressed by the critical sociological perspective on professionalism which is examined in the following section.

3. The Critical Framework on Professionalism

The critical perspective on professionalism is an extension of critical social theory. As will be explained, the critical perspective has gained prominence in the current sociology of professions as the two main alternative paradigms, functionalism and interactionism, have

been found defective (Saks, 1983, pp. 2-5). The functionalist perspective draws upon Durkheim's view of professional associations as moral communities which could help create social order and assist in the attainment of an orderly social development (Durkheim, 1957). Early adherents to the functionalist approach, such as Carr-Saunders and Wilson (1933) and Millerson (1964), attempted to formulate a list of attributes which were assumed to represent the core features of professional occupations (see Johnson, 1972, p. 23; Saks, 1983, p. 2). It was also frequently suggested that there was a somewhat natural history of professionalism based on a number of specific stages through which every occupation undergoing professionalization must pass (see, for example, Wilensky, 1964). Other exponents of the functionalist perspective, such as Parsons (1954 and 1968) and Barber (1963) emphasised the central role and importance of professions in maintaining an equitable functioning of society. In summary, mainstream functionalist authors suggest that professions possess a highly esoteric and complex body of knowledge, which is of importance to society. In exchange for ethical and non-exploitative use of such knowledge, professions, in a *de facto* contract with the wider community, have been granted a privileged social and economic position.

Functionalism has been subject to severe criticism and is now considered inadequate and primitive (Johnson, 1972; Saks, 1983). Underlying the model is the assumption that professions function in order to benefit society. It is also assumed that the distribution of these benefits will take place in a fair and even-handed way, and that all groups in society attach equal value to these benefits (Johnson, 1972, p. 34). Finally, and most importantly, the functionalist perspective is castigated on the grounds that it obscures both the social and historical conditions under which occupational collectivities gain and maintain their professional status, and the power struggles involved in this process (Saks, 1983, p. 2). Beneath the overt public interest claims of professions, it is argued, is a submerged private interest agenda: the attempt by professions to safeguard a monopoly status (Osiel, 1984, cited in Preston *et al.*, 1994, p. 4). Such particularist aspects of professionalism are integral to the critical perspective on the study of professions.

Another alternative to the critical perspective on professionalism is a school of thought known as interactionism. Interactionist writers, such as Hugh (1958), Bucher and Strauss (1961), and Becker (1962), were among the first sociologists⁶ to critique the functional model and refused to accept the public claims of professions at face value. In essence, the interactionist approach analysed professionalization as a process of constructing and maintaining an occupational role which enabled members of a profession to take advantage of their clients and the wider public. A recent and influential work which may be encompassed within the interactionist school is Abbott (1988). Abbott, as other interactionists, focused attention on the links which professions have with their work environment, that is, their jurisdictions. As Sikka and Willmott (1995a) have noted, Abbott's work usefully focused attention on inter-professional competition over the provision of particular services. However, Abbott did not give appropriate consideration to how international agencies and third parties (such as politicians, journalists, academics, or clients) enable or constrain the interests and strategies of professional groups (ibid., p. 548). Another weakness of Abbott's work is that his analysis focused on conflicts between professions and, thus, he did not pay appropriate attention to intra-professional competition (ibid.).

Notwithstanding the fact that interactionism emphasises the political skills of aspiring professionals who attempt to attain and maintain professional status, the interactionist perspective has generally limited potential to adequately address the structural conditions under which a given occupational group succeeds or fails in attaining the status of a profession. In addition, interactionist commentators have also been criticised for generalising professional behaviour on the basis of limited evidence (Saks, 1983, p. 4).

⁶Criticism of the alleged utility of professions is as old as professionalism itself. Adam Smith, for example, in 1776 argued in *The Wealth of Nations* that members of a trade or a profession can lead to a conspiracy against the public (quoted in Saks, 1983, p. 3). During the twentieth century economists, such as Friedman and Kuznets, questioned the benefits derived from professions and highlighted the dangers of professional monopolies. See: Kuznets, S. and Friedman, M. (1945) "Income from Independent Practice", National Bureau of Economic Research, Washington; Friedman, M., (1962) "Capitalism And Freedom", University of Chicago Press, Chicago.

The critical perspective has become established as the new orthodoxy in the sociological analysis of professions in the contemporary Anglo-American context (Saks, 1983). The critical literature on professionalism incorporates the examination of professional organisations in terms of wider social relations, their sources of power and authority, and the way in which professional associations operate within their specific socio-economic contexts. The critical literature of professionalism also attempts to explain the process of professionalization, whereby certain occupational groups succeed in achieving professional status.

Critical theory, as applied to professionalism, situates the formation and development of professional associations within the material context of bureau-capitalist society. The emergence and development of professions is examined in the context of social, economic, and political conditions, what Klegon (1978) referred to as the external dynamic. Critical theory views professionalization as a means of achieving closure and collective social mobility by gaining control in the market for skilled labour (Larson, 1977; Macdonald, 1985).

There are two sub-streams in the critical theory on professionalism, each mirroring the two main influences of critical social theory: the Neo-Weberian and the Marxist approaches. The Neo-Weberian approach to the sociology of professions is primarily concerned with the application of the Weberian concept of 'social closure' to the consideration of professional occupations in society. The term 'social closure' was introduced by Weber in *Economy and Society*, and broadly refers to the process by which social collectivities seek to regulate market conditions in their favour, and to secure protection from actual or potential competition on the basis of an exclusionary⁷ code such as class (property ownership), race, gender, religion, language, credentials, etc. In Weber's own words: "... a social relationship will be known as 'closed' ... to those on the outside, so far as and to the extent that ... participation of certain persons is excluded, limited, or subject to conditions" (1962, p. 97).

⁷For a discussion of Weber's concept of social closure see Murphy (1988) who also examines the work of F. Parkin and R. Collins on closure.

Following the neo-Weberian tradition, Parry and Parry (1976 and 1977) conceived of professionalism as a strategy for controlling particular occupational services by self-governing associations. Similar views were expressed by Parkin (1979) who regarded professionalism as a particular type of exclusionary closure based on credentialism: "... a strategy designed, amongst other things, to limit and control the supply of entrants to an occupation in order to safeguard or enhance its market value" (ibid., 54). Further, Parkin identified two distinct forms of such professional activity, both relevant in analysing the strategies of SOL and SELE, the two main rival accounting groups in the intra-professional conflict in Greece (ibid.). Usurpation refers to the tactics employed by subordinate occupational groups in their attempt to achieve elevation at the expense of established and dominant professional groups. The other form of closure activity refers to the tactics employed by dominant professional groups in attempting to subordinate and control rival and aspirant groups. Both, Parry and Parry (1976 and 1977) and Parkin (1979), also referred to the importance of securing legally sanctioned professional monopoly by means of state license.

To date, as Saks (1983) and Robson and Cooper (1989) have noted, a number of extensions to neo-Weberian theory have been developed. Nevertheless, the Neo-Weberian school remains basically a market control theory whereby professions are perceived as groups who provide specialist services and seek to control the market for the supply of their expertise. Professions thereby "... attempt to translate one order of scarce resources - special knowledge and skills - into another - social and economic rewards" (Larson, 1977, p. xvii). Professionalism is interpreted as a means for controlling an occupation to secure solidarity among membership, and the imposition of closure practices to prevent the dilution of status.

By contrast with the taxonomic models, therefore, the neo-Weberian critical approach does not emphasise the professional characteristics, or the assumption that professions behave in the best interests of the public. Thus, the neo-Weberian approach presents the opportunity to

examine the dynamic process of professionalization, enabling the empirical consideration of the socio-political conditions under which aspiring occupational groups become professions.

The Marxist sub-stream of the critical tradition examines professionalism within the context of the mode of production in capitalist societies. Marxist analyses consider the relationship between professions and the wider social structure, and link the development of professions with the distribution of power in society (see Carchedi, 1975; Johnson, 1977 and 1980). Although there are several extensions or versions of the Marxist view on professionalism, generally speaking, Marxist writers take a cynical stance towards professions. At the extreme, this view locates professions and professionals in the ranks of the 'new petty bourgeoisie' (Poulantzas, 1975). This refers particularly to the apex of the pyramid of professional institutions. The professional elite is directly linked to the 'global functions of capital', and is involved in framing surveillance mechanisms to monitor labour performance (Johnson, 1980).

In other words, from a Marxian perspective professionals are associated with the process of labour exploitation and surplus value appropriation (see Saks, 1983, pp. 11-16). In particular, accountants and top management in their employee roles aid capitalists and take actions beneficial to the capitalist class (Puxty, 1989; Roslender, 1990). Other Marxist commentators, however, have assumed the comparatively moderate view that professional groups draw their characteristics from both, the labour and the capitalist classes (Carchedi, 1975; Esland, 1980).

From a Marxist perspective, professions are also assumed to act in their own self-interest, either without regard for, or to the detriment of other parties. For example, in the case of accountancy, negatively affected parties may include bondholders, tax-payers, creditors, legislators, and the public at large (see Hooks, 1991, p. 115). For Saks, although it appears that Marxist writers succeed in considering professions within the wider social structure, they have failed to provide sufficient evidence in support of their assertions (1983, p. 13).

4. Critical Approaches to the Analysis of the State-Profession Relationship

The purpose of this section is to expose some critical views regarding the structure of the institution of professions and its relationship with the state, as these have a significant bearing on the analysis which is conducted in this thesis. Johnson (1972), working by and large within the neo-Weberian⁸ perspective, viewed a profession not simply as an advanced occupational activity but mainly as an institutional device for vocational control. This control is aimed at resolving the inherent tension in the relationship between producers and consumers, in favour of the latter (ibid., p. 22). Johnson offered an analysis of the variation in market forms of professional arrangements. He argued that the power relationships between the provider of a service (professional) and his/her client (consumer) may lead to conditions of social and economic dependence (ibid., p. 41). The balance of power between producer and consumer might be such, as to enable the practitioner to increase the social distance with the client, and advance his autonomy and control over practice by engaging in a process of 'mystification'.

This suggests that there is a degree of uncertainty in the relationship between professional and client. Johnson has identified three resolutions concerning the tensions and uncertainties in this relationship (ibid., p. 45). The first form of resolution, known as "collegiate control", refers to a stage of professionalization in which the producer of professional services defines the needs of consumers and how these needs are to be serviced. The second form is known as "patronage" under which the needs of consumers and the way in which they are to be catered for are defined by the consumer. A particular type of "patronage" is "corporate patronage" which refers to professional activities whereby a major part of the demand for services comes from large corporate organisations, accountancy services being the principal example. The final form of resolution of the tension between producer and consumer of professional services described by Johnson is "mediation" or "heteronomy" in Weberian

⁸However, Johnson in his more recent work (Johnson, 1977 and 1980) used clearly Marxian analysis to examine the structural conditions which underlie the emergence and development of professions in western capitalist societies.

terminology. "Mediation" refers to the situation whereby a third party, most notably the state, becomes involved in the relationship between producer and consumer in order to define the needs of the consumer and/or the manner in which these needs are to be catered for.

In essence, state intervention aims at removing the authority of either the practitioner or the client, and, to a lesser or greater extent, imposes a preferred content and manner of practice. In other words, "mediation" aims at eliminating presumed weaknesses of "collegiate control" and "patronage". The extent of state intervention should be understood to vary depending on specific historical conditions of both, profession and state (Johnson, 1980, p. 363). For example, at one extreme, the state may act as the effective employer of all practitioners with the objective of ensuring a desired distribution of services of a certain quality, nursing being an example. At the other extreme, state intervention may be limited to a minimal encroachment on an institutionalised system of collegiate control.

The above three broad resolutions, "collegiate control", "corporate patronage" and "state mediation", have been identified as three stages in the evolution of professionalism (Larson, 1977). Nevertheless, a profession can be seen as incorporating aspects of all three stages (Lee, 1990b, p. 140). It is collegiate in that it seeks to secure a substantial client dependency with respect to its body of knowledge; it is under corporate patronage in that some clients have the power to determine their own needs; finally, it is subject to mediation as the state usually intervenes to regulate, the professional/client relationship. As will be discussed in detail in the following chapters, a form of state mediation occurred in the establishment of the Greek auditing profession in 1955.

It has been argued that the tension and uncertainty in the relationship between professional and client is, at least partly, dependent on the esoteric character of the knowledge applied by the provider. Jamous and Peliolle (1970) proposed two conditions for an occupation to gain professional status. The first was a high degree of indeterminacy of professional

knowledge, where indeterminacy refers to that part of knowledge which cannot be codified, and hence, professional judgement is required (mystification). The second condition was legitimisation of the professional claims by an external party. Johnson (1977), using accountancy as an example, identified capital as the legitimising authority in industrial societies.

However, in the post World War II Greece, which was attempting to advance its economic development, it appeared that the state was the legitimising authority of the auditing profession. The primary role of wider state agencies in the emergence and development of professions is typical of Continental Europe and stands in contrast to the Anglo-Saxon tradition, which clearly underplays the role of the state (see Burrage and Torstendahl, 1990 and Torstendahl and Burrage, 1990). As Abbott (1988, p. 163) concluded "... (in the Continent) the government, rather than the public or the workplace, is the dominant audience for professional claims" (my brackets). Abbott's statement might have been an oversimplification, in the sense that professional histories in continental European countries do exhibit considerable variation.⁹ However, it will be shown in the following chapters that Abbott's statement very much holds for Greece,¹⁰ where the state has traditionally been a licensing body of professional groups.

The last point that should be mentioned here relates to the way in which the critical perspective theorises the state and its role in the development of the accounting profession. The literature on politics in liberal capitalist democracies has developed the view according to which the state is not a unified or monolithic entity, and that state institutions are far from being integrated or holding homogeneous views on matters of policy (Hirsch, 1978; Ham and Hill, 1984, pp. 39-40; Williamson, 1989, pp. 181-182). It seems that critical accounting commentators have accepted this position (Willmott, 1986, pp. 563; Robson *et al.*, 1994, pp. 528). In mainstream critical accounting literature the state is thus seen as

⁹See among other the two edited books Burrage and Torstendahl (1990) and Torstendahl and Burrage (1990).

¹⁰For the dependence of professional organisations upon the state proper in Greece and their interrelationships see Mavrogordatos (1988a).

pulled in different directions simultaneously by organised groups pursuing conflicting interests.

5. Critical Studies on Accounting Professionalism

As was mentioned earlier, the critical accounting literature emerged in the early 1980s. At this time, other accounting commentators such as Burchell *et al.* (1980) and Hopwood (1983) advocated a contextual approach to the study of accountancy. Burchell *et al.*, in particular, called attention to the need for historical and contextualised studies into the development of accounting, its social aspects, key players and issues (*ibid.*, p. 23). The response to this challenge was such that, as Sikka and Willmott (1995a, p. 551) noted, there is today an increasing interest among accounting academics in applying sociological frameworks to examine and analyse the emergence and development of the accounting profession. Although the critical accounting literature has also focused on management accounting and the development and social role of the accounting function (see Laughlin, 1987; Power and Laughlin, 1992), a major focus has been the professionalization of accountancy.

The distinction between the neo-Weberian and Marxist sub-streams has been imported into the accounting literature. Pure closure studies have been criticised for giving inappropriate attention to analysing how wider social, economic or political structures enable or constrain the interests and strategies of professional elites. Thus, the theorising of the state-profession relationship "... has not progressed much beyond either supporting or questioning the premise that profession-state relations impact upon the effectiveness of closure" (Chua and Poullaos, 1993, p. 692). On the other hand, Marxist research has tended to theorise the accounting profession as the outcome and embodiment of capitalist relations of production (see for example, Puxty, 1989; Roslender, 1990). However, pure Marxist analyses suffer from a certain degree of reductionism as, by conceptualising accountancy as simply the

handiwork of capitalist economic structures, they fail to pay appropriate attention to the role and practices of key players in professional development (Chua and Poullaos, 1993, p. 694).

To overcome the apparent weaknesses of pure neo-Weberian and Marxian research, a number of critical accounting writers have started to adopt a composite approach, integrating aspects of both sub-streams (see, Willmott, 1986; Walker, 1991 and 1995; Chua and Poullaos, 1993; Sikka and Willmott, 1995a). Thus, as Chua (1986, p. 624) has suggested, mainstream critical accounting literature is attempting to draw attention to the totality of relations - social, economic, political, and ideological.

Following the tradition of critical theory, accounting commentators within this perspective have adopted a historical approach to research (see for example, Richardson, 1989; Miller, 1990; Walker, 1991 and 1995; Chua and Poullaos, 1993; Preston *et al.*, 1995; Sikka and Willmott, 1995a and 1995b). Generally, critical analyses of the professionalization of accountancy have depicted this process as an avenue for collective social and economic advancement. It is largely outside the realm of this line of research to examine current contemporary issues or the nature of accounting/audit practices.

The critical perspective on the accounting profession has also recognised the importance of state agencies in the emergence and development of aspiring professional groups in modern societies (Tinker, 1984; Loft, 1986; Collins, 1990; Torstendahl, 1990). However, a number of accounting commentators have drawn attention to the fact that the role of the state, as well as the dynamics of the profession/state relationship, have not been adequately studied and illuminated (Willmott, 1986; Chua and Poullaos, 1993; Sikka and Willmott, 1995a and 1995b).

The critical line of research has also been criticised for lack of considerable theoretical or empirical depth, and for being fragmentary and static in nature (Chua and Poullaos, 1993, p. 692). Another criticism is that critical writers on accounting professionalism have tended to

rely heavily on secondary sources in their empirical studies, with notable exceptions Chua and Poullaos (1993), and Walker (1991, 1995). In addition, most accounting research within the critical paradigm has taken a restrictive rather than a holistic approach, in that it has examined and highlighted only certain aspects of the accounting professionalism, pertinent to the empirical data in each case. Willmott *et al.* (1993, p. 73) lamented that a shift towards the critical approach in the study of the accounting profession has not been accompanied by sufficient detailed empirical research (see also, Saks, 1983, p. 10; Willmott 1986, p. 555). A similar point was made concerning the overall state of accounting research by Hopwood: "... the simple fact is that accounting research has tended to isolate itself from accounting practice, if not accounting in practice" (1983, p. 302), and "... what is needed are more substantive investigations oriented towards providing bases for understanding or explaining the workings of accounting in action" (*ibid.*, p. 303).

As has been mentioned, the critical perspective seeks to pay attention to the totality of relations (social, economic, political, or ideological), within which the accounting profession has developed. Willmott (1986) attempted to study the UK accounting profession by integrating elements of the functionalist, interactionist, and critical perspectives on professionalism. His main argument was that "... professional associations are *primarily*, but not exclusively, political bodies whose purpose is to define, organise, secure and advance the interests of their (most vocal and influential) members" (*ibid.*, p. 556, italics and parentheses in the original). A similar point was also made by Chua who suggested that a profession is "... an aspiring occupational monopoly that seeks to further its own social and economic self-interest" (1986, p. 624). Willmott (*ibid.*) connected the emergence of the accounting profession to the prominence of market in capitalist societies and the increasing involvement of the modern state in regulating social and economic life. Further, Willmott focused on the structural conditions under which a professionalization project succeeds or fails, and identified the importance of powerful parties such as industrialists, investors, and state officials. However, as Chua and Poullaos (1993, p. 693) have noted, Willmott's analysis, spanning over the period from the mid-nineteenth century to the early 1980s, did

not clearly reveal the dynamics of the relationship between the projectory of the British profession and relevant social, political, and economic structures.

Another study which has considered the role of a number of variables in the attempt of the accounting profession to define, defend, and extend its domain of practice is Sikka and Willmott (1995a). The authors modified the interactionist framework of Abbott (1988) who had focused on the importance of competition between rival occupational groups in the process of professional emergence and development. Sikka and Willmott incorporated two important features into Abbott's model. First, the role of supranational organisations and institutions in regulating the provision of accounting services, against an increasing trend towards globalisation of national markets (see also Puxty *et al.*, 1987, p. 275). Second, the role of 'third parties' - such as politicians, journalists, academics, regulators or clients - who do not intend to occupy professional territory, but can nevertheless weaken or inhibit a profession's ability to defend or expand its jurisdiction. The authors illustrated their model with reference to major developments in the history of the British accounting profession from the early 1970s to the early 1990s.

Other critical studies have primarily focused on an examination of profession/state relationships. Puxty *et al.* (1987) offered a theoretical analysis of how accounting operates in regulation of social and economic activities, and how, in turn, the institutions of accounting are themselves regulated. The authors accorded a central role to the state in the development of the institutions of accountancy, and provided a static classification of modes of accounting regulation with reference to four advanced capitalist countries (Germany, Sweden, UK and USA). They demonstrated that differences in the organisation and mode of regulation of the profession existed between the four countries, but stopped short of shedding light on the dynamic nature of accountancy practice. Using a more dynamic model, Richardson (1989) illustrated how intra-professional unrest or conflict was managed through the state's mediation and the exercise of ideological hegemony in Ontario, Canada.

The complex and interdependent nature of the interrelations between accounting and the state was examined by Miller (1990), with reference to the Colbert period in France in the second half of the seventeenth century. The author showed how state projects and wider state policy priorities may impact upon accounting change, and drew attention to the reciprocity of this relationship. The dynamic interdependence between the accounting profession and the state was also exposed in a study of accounting professionalization by Chua and Poullaos (1993). The authors presented an historical analysis of the professionalization attempt by accountants in Victoria, Australia, at the turn of the twentieth century. The significance of either pure closure studies or crude Marxian analyses of professionalism was questioned, and the authors opted to theorise the emergence and development of the professions as the outcome of a dynamic interaction between state agencies and aspiring occupational collectivities.

In another study of professionalization, Walker (1991) analysed how Scottish chartered accountants achieved and defended credential-based closure in the late-nineteenth and early-twentieth century. The author showed that a monopoly of practice was secured through recourse to a functionalist rhetoric of the role of professions, and by taking advantage of a superior position, *vis à vis* usurpatory rival groups, in the social nexus of political and economic relations. A more detailed account of the early organisation of accountants in Scotland in the mid-nineteenth century is found in Walker (1995). Here, professional organisation was analysed in its historical, political and socio-economic context.

The review of critical accounting literature thus far has suggested that the critical perspective has been used by accounting commentators to study the emergence and development of accountancy in capitalist societies. Critical accounting studies have attempted to show that accounting/auditing is a socially constituted phenomenon which serves a diversity of functions and roles, rather than being simply a technical, rational, neutral, or scientific function. However, as noted, there has been, to date, little attempt on behalf of critical accounting authors to study accountancy on the ground; to examine live contemporary

issues or the nature of accounting/audit work and practices.¹¹ One notable exception is Humphrey and Moizer (1990) who used the critical perspective to investigate and analyse the processes of audit judgements followed by audit managers in a contemporary setting. Having conducted a series of interviews, Humphrey and Moizer (ibid.) exposed the political and self-interested nature of auditing, a practice which they described as socially constructed and contextually dependent.

As indicated above, there has been quite a number of studies of professionalism in accounting from a critical perspective. However, almost all of these studies have been in the Anglo-American context. Critical academic research of accounting professionalism is lacking for the continental Europe generally, and for Mediterranean countries in particular.

6. Principal Themes of the Critical Perspective on Accounting Professionalism

Hitherto, this chapter has analysed the critical perspective at three levels. Firstly, critical theory as social theory was sketched and its basic tenets were described. Secondly, the critical sociological approaches to professionalism were described. Finally, the critical literature, as applied to the analysis of the accounting profession was summarised and assessed. The aim of this sub-section is to re-iterate the principal themes of the critical approach to accounting professionalism which will be utilised in this thesis to study the emergence, development, and current state of the Greek auditing profession.

The first theme of the critical approach emphasises that historical analysis is central to understanding the development of society and its institutions. Hence, an historical approach will be used to analyse the temporal sequence of events which led to the emergence and development of the Greek auditing profession. The origins of accounting regulation and corporate auditing will be traced to the early part of the twentieth century, as an integral component of a major modernisation project undertaken by the Greek state. The inception of

¹¹This fact is apparently at odds with critical theory's claim of linking theory to practice (Laughlin, 1987, p. 483).

formalised statutory auditing through the establishment of SOL in 1955 as a quasi-state audit organisation will be described in accordance with the critical commentators' concern with state/profession relationship (see chapter two). Then, the development of SOL from its inception in 1955 to 1990 and the strategy employed to secure social closure and expand its occupational territory will be presented. At the centre of this analysis will be the intra-professional struggle between SOL and its main rival SELE over the domain of statutory audits (see chapter three). Finally, the liberalisation of the profession in the early 1990s will be described and explained as the result of SELE's usurpatory strategies of lobbying the government and favourable social, economic, and political climate (see chapter four). Throughout, the historical analysis will explain the mechanisms which drove change and will expose the key players, their role and practices.

The second theme of the critical paradigm relates to the importance of structural factors for the process of professionalization. Thus, the emergence and development of the Greek auditing profession will be explained in the context of the prevailing social, economic, and political conditions. This analysis will clarify the role of parties such as state agencies, organised economic interests (such as the Confederation of the Greek Industries), international economic organisations (such as the Organisation for Economic Co-operation and Development - OECD), foreign governments, the international auditing profession, and prevailing political ideology, in the emergence and development of the Greek auditing profession.

The third theme of the critical tradition suggests that professional accounting groups are primarily political bodies who seek to constitute and control a market for their expertise and attempt to translate their professional knowledge and skills into social and economic rewards (Willmott, 1986; Larson, 1977). The above conceptualisation of accounting associations will be explicated with reference to the discourses, policies and strategies of the two rival accounting groups in Greece, SOL and SELE, over the period from 1955 to the early 1990s. It will also be illuminated from the results of the empirical survey concerning

the perceptions of individual auditors, corporate financial executives, and users of audit reports and other parties interested in company auditing on the consequences of the liberalisation on auditor behaviour in the performance of various audit functions.

The fourth theme in the critical approach relates to an increasing interest given to the examination of the profession-state axis (Miller, 1990; Chua and Poullaos, 1993; Walker and Shackleton, 1995). The state is theorised as playing a decisive role in the emergence and development of the accounting profession. Further, the state/profession relationship is viewed as context specific, historically dynamic and fluid. This conceptualisation of the role of the state will be portrayed in the detailed account of the development of the Greek auditing profession. As will be shown, the establishment of SOL in 1955 as a quasi-state audit organisation was the result of direct state intervention, as was the liberalisation of the profession in the early 1990s, when changed economic and political realities called for a reform of the institution of corporate auditing.

7. Research Methods and Sources

As stated earlier, this study attempts to conduct an examination of the long and intense intra-professional conflict which arose over the manner of organisation of the Greek auditing profession, culminating in its liberalisation in 1992. The emergence and development of the Greek auditing profession is considered within its wider social, economic, and political context. A major part of this study is to examine the potential impact which the liberalisation of the Greek auditing profession has had on auditor behaviour, in relation to the performance of various audit functions. In other words, this study will examine the internal consequences (Abbott, 1988, p. 6) - consequences affecting the area of professional work itself - of a change in the structure of the relationship between client and professional, which the liberalisation brought about.

The research strategy employed to collect empirical data for this study is triangulation, i.e. the use of a combination of methods in the study of the same phenomenon (Campbell and Fiske, 1959; Webb, *et al.*, 1966; Denzin, 1978a and 1978b; Jick, 1979). Generally, triangulation aims at achieving more reliable data by avoiding method-specific measurement error. The implicit assumption in triangulation is that the weaknesses in each single method is compensated by the counter-balancing strengths of another (Jick, 1979, p. 604). As Webb *et al.* stated:

"... Every data gathering class - interviews, questionnaires, observation, performance records, physical evidence - is potentially biased and has specific to it certain validity threats. Ideally, we should like to converge data from several different data classes, as well as converge with multiple variants from within a single class" (1966, p. 35).

The merging of quantitative with qualitative approaches can contribute with respect to the validation of results, the interpretation of statistical relationships, and the clarification of puzzling findings (Sieber, 1973, p. 1345). Some form of triangulation in accounting research has been used either implicitly (see for example Humphrey *et al.*, 1992) or explicitly (Hoque and Hopper, 1994; Walker and Shackleton, 1995).

Two particular types of triangulation were used in this study; data triangulation and across-method triangulation (Denzin, 1978b). In data triangulation, the researcher explicitly searches for as many different data sources as possible, pertinent to the event or phenomenon under investigation. By triangulating data, one method can be employed to maximum theoretical advantage (*ibid.* 295). In across-method triangulation, different methods of gathering data are combined: "... the rationale for this strategy is that the flaws of one method are often the strengths of another; and by combining methods, observers can achieve the best of each while overcoming their unique deficiencies" (*ibid.*, p. 302).

The examination of the intra-professional conflict as well as the historical account of the establishment of the Greek auditing profession are based on a mix of data triangulation and across-method triangulation. Data triangulation refers to the use of a variety of published

and other archive material - both primary and secondary data - which included: relevant books and journals; government papers and documents; records of professional associations (articles of associations, by-laws, regulations, etc.); Parliamentary Meetings; existing legislation (laws, presidential decrees, and ministerial decisions); judicial decisions; and letters exchanged between various organisations who became involved in the affairs of the Greek auditing profession. Across-method triangulation refers to the use of interviews with a number of individuals who had played a key role in the development of the Greek auditing profession. Such interviews were mainly used to clarify certain areas of the history of the Greek auditing profession for which it was felt that written sources did not provide a clear picture.

For the empirical research into the impact which the liberalisation of the Greek auditing profession might have had on auditor behaviour, across-method triangulation is used. This involved a combination of quantitative and qualitative approaches. The quantitative approach entailed the administration of a mail questionnaire to auditors and corporate financial executives. The qualitative part referred to written comments elicited from mail survey participants, as well as a number of interviews with auditors, corporate financial executives, and users of audit reports and other parties interested in auditing. Details of the survey techniques employed are presented in chapter five.

Following the critical tradition, the main purpose of the empirical research is to understand and explain the views of participants in the survey, rather than to test any hypotheses. It is acknowledged that quantitative methods of data collection generally, and mail questionnaires in particular, are not frequently used within the critical paradigm of research (Chua, 1986, pp. 620-621). In the context of this thesis the mail survey is used in order to elicit and depict the views of as large a number of individual auditors and financial executives, as possible. It is noted that there was no prior research available with regard to the Greek auditing profession, and the use of the mail questionnaire was exploratory in character.

In addition, the mail questionnaire type of research is employed in conjunction with interviews, a method frequently used in mainstream critical research (ibid.). As will be explained in chapter five, all participants in the mail survey had been personally contacted via the phone prior to the administration of the instrument, and the purpose and nature of the research discussed and explained. Furthermore, key findings of the mail survey were introduced for discussion in the personal interviews with auditors, financial executives, and users of audit reports and other parties interested in auditing.

As will be shown in chapter six, this mixing of quantitative and qualitative approaches (triangulation) proved very fruitful; it helped to explain and understand the perceptions of the various groups of respondents about the potential impact of the liberalisation of the Greek auditing profession on auditor behaviour, and to illuminate the deeply political nature and self-interested character of the affairs of Greek auditing.

8. The Significance of the Study

This study possesses a number of innovative characteristics which extend and enhance the line of current critical accounting research. Most critical inquiries into the accounting profession have tended to concentrate on historical analyses and have not attempted to examine contemporary issues. This study, in addition to comprising an historical investigation of the development of the Greek auditing profession, also seeks to provide insights into contemporary audit practice in Greece. As stated earlier, this study attempts to survey the perceptions of individual auditors, corporate financial executives, and users of audit reports and other interested parties regarding the possible effects of the liberalisation of the profession on the emphasis which auditors give to various audit functions. Thus, this study attempts to make academic research relevant to accounting practice, by attempting to investigate the possible links between the liberalisation of the Greek profession, which resulted from the intra-professional struggle at the political level, and changes in the behaviour of individual auditors regarding the performance of various audit functions.

In the empirical component of this study the individual (auditor, user etc.) becomes the locus of analysis. This contrasts with mainstream critical accounting studies which have almost exclusively focused on professional groups and have relied heavily on written source material and official statistics (government records and papers, relevant journals and newspapers, or records of professional organisations).

While critical accounting research has shown a geographical bias towards Anglo-American countries of advanced capitalism, this study examines the accounting profession in a Mediterranean European country, thus adding spatial variation to the existing accounting literature on professionalism. There is an increasing call for academic research in continental European accounting, as indicated by the launching of *The European Accounting Review* in 1993, the international journal which serves as a forum for accounting research in Europe. This study also aspires to remedy a continuing lack of understanding of Greek accounting and audit practices among international audiences (Flower, 1993, p. 132), and to shed some light on the affairs of the Greek auditing profession which has been described as "... an enigma to many non-Greeks" (ibid., p. 133).

More importantly, this study aims to contribute towards filling a gap in mainstream critical accounting literature, that is, the shift towards a critical perspective in the study of the accounting profession has not been complemented by a corresponding expansion of empirical research within this perspective (Saks, 1983; Walker, 1991; Willmott *et al.*, 1993). The empirical component of the study is also responsive to the identified need to apply critical perspectives to consideration of aspects of auditing *in practice* (Humphrey and Moizer, 1990).

9. The Structure of the Thesis

Having presented the basic characteristics, the theoretical framework, and research methods of the study, this section explains how the remainder of the thesis is structured. Chapter two

starts with an account of the politico-economic history of Modern Greece. This background information is considered necessary in order to understand the development of the Greek auditing profession. Then, chapter two explains the mode of accounting regulation in Modern Greece and describes the development of corporate external auditing. The establishment of SOL as quasi-state auditing organisation is presented, and SOL's organisational structure and mode of operation are clarified.

Chapter three describes the intra-professional struggle for the liberalisation of the Greek auditing profession over the period 1955 to 1990. The profiles of the protagonists in this struggle are presented and their objectives clarified. Particular reference is made to the defensive strategy of SOL which proved successful in repelling the fiercest attacks by rival groups during the late 1970s, and particularly during the 1980s.

Chapter four examines the intra-professional conflict over liberalisation in the 1990s. The discussion focuses on the passing of a series of legislation aimed at liberalising the Greek auditing profession in the early 1990s. As will be shown, this legislation was tailored to meet the needs and wants of SELE, and was effected following a successful lobbying of the incumbent government by SELE. Particular reference is made to the trenchant criticisms and resistance which met the reforms by SOL, the political parties of the opposition, the academic community, the media, and generally the public opinion.

Chapter five formally introduces the research question of the empirical component of this study as an inquiry into the impact which the liberalisation of the Greek profession might have had on auditor behaviour. Then, chapter five goes on to present and justify the research methods employed to address the research question. These methods comprised a combination of mail survey and personal interviews.

Chapters six presents, analyses, interprets, and attempts to explain the results of the empirical inquiry into the potential impact of liberalisation of the Greek auditing profession

on auditor behaviour. Respondents to the survey included auditors from the three auditor groups (SOL SA, EX-SOL, and SELE), corporate financial executives, and users of audit reports and other parties interested in company auditing.

Finally, chapter seven summarises the most important findings of the study and draws together some implications for audit practice and empirical research in accounting. This concluding chapter also presents a brief account of an abortive attempt to re-institute SOL, which took place after the socialist government of PASOK came to power in October 1993. This highlights the continuing political nature of the affairs of the Greek auditing profession and the influence of international actors upon.

CHAPTER TWO

ACCOUNTING REGULATION IN GREECE AND THE ESTABLISHMENT OF SOL

1. Introduction

As indicated in the introduction to the thesis, the object of this chapter is to describe and analyse the establishment of the Greek auditing profession within its socio-economic and political contexts. The view that: "... the institutions and processes of accounting regulation in different nation-states cannot be understood independently of the historical, social and politico-economic contexts of their emergence and development" (Puxty *et al.*, 1987, p. 275), is fully accepted. The material presented here provides necessary background information to the discussion of the intra-professional conflict between SOL and SELE, which is presented in later chapters.

Three of the four methodological themes of the critical paradigm identified in the previous chapter are employed in the analysis presented here. Historical analysis will identify the key events and the main actors in the history of Greek statutory auditing; it will assist in explaining and analysing the development of accounting regulation in Modern Greece and the establishment of the auditing profession in 1955. An examination of structural factors will relate the developing projectory of Greek accounting and auditing to the socio-political and economic development of the country, and will clarify the role of international agencies and organisations. Finally, the protagonist role of the state in the affairs of Greek accountancy is illuminated and explained.

In particular, the chapter addresses five issues. First, a brief account of the economic, social, and political history of modern Greece is presented. Second, the development of accounting regulation in Greece is described. Third, the origins of corporate auditing in Greece are traced to legislative initiatives in the 1920s and 1930s. Fourth, the establishment of SOL in 1955 as a state corporatist intermediary is described. Finally, the outcome of these influences are shown in an outline of the organisational structure and mode of operation of SOL.

2. An Excursus on the Politico-Economic History of Modern Greece

2.1 The Economic Development of Greece

Modern Greece gained her independence after the war of 1821-1829 against the Ottoman Empire. Ever since, the development of the country has taken place against a background of extreme political volatility, characterised by short-lived administrations and bloody wars (see among others Tsoukalas, 1969 and 1985; Mouzelis, 1978 and 1986; Freris, 1986). A period of relative stability commenced as late as the early 1970s (Charalambis, 1989).

By the end of the Greek war of independence in 1829, a basic political and economic infrastructure had to be established. Liberated Greece comprised a small country devastated by war and dominated by an agrarian based economy (95 per cent peasant population - Tsoukalas, 1969, p. 19; Panagiotopoulos, 1980). In addition, the new state had to service a large war debt taken on extremely exploitative terms (Tsoukalas, 1969; Mouzelis, 1978 and 1986; Themelis, 1983).

The government of the new state of Greece (i.e. modern Greece) instituted incentives to encourage industrial development as early as 1837 (Panagiotopoulos, 1980, p. 216). However, it appeared that this effort did not have any significant effect, at least until the 1870s. Among the reasons that have been advanced for this are: poor natural resources; a small domestic market; shortage of labour; lack of capital; and huge war debt (Giner, 1986, p. 16; Tsoukalas, 1969). There was no industrial revolution during the nineteenth century in Greece and other Balkan states which had been subject to the rule under the Ottoman Empire (ibid.). The following table illustrates the limited penetration of capitalism in Greece during the late-nineteenth and early-twentieth centuries.

Table 2.1: *Analysis of the Economically Active Population of Greece in 1861 and 1920 (percent)*

Sectors	1861	1920
Agriculture	74.0	70.0
Industry and handicraft	10.0	13.1
Commerce and transport	6.1	10.1
Public administration	4.4	2.0
Professional and other	5.5	4.8
Total	100	100

Source: Tsoukalas (1985, p. 183)

The industrialisation of Greece begun in earnest during the 1870s when the state, under the premiership of Charilaos Tricoupis, embarked on an extensive developmental and modernisation effort. The building of a railway network and the excavation of the Corinth Canal were among the most important projects undertaken in the late nineteenth century. In addition, some mining and industrial undertakings were established. As a result, a certain amount of basic infrastructure developed during the late nineteenth century (Tsoukalas, 1969, p. 23; Mouzelis, 1986, p. 8). This infrastructure was indispensable for the more rapid industrial development of the first decades of the twentieth century.

In the late nineteenth century Greek expatriate businessmen and financiers (the Greek capital of Diaspora¹) started to return to the Greek mainland, in response to wider politico-economic changes (Mouzelis, 1980 and 1986; Dertilis, 1980 and 1985; Panagiotopoulos, 1980; Tsoukalas, 1985). However, the economic development of the late nineteenth century was largely the result of state projects as the inflow of the private capital of Diaspora was predominantly invested in high interest bearing state loans and monopolistic railway enterprises, while profits were not reinvested but freely exported (ibid.). Several companies were set up before the turn of the twentieth century through public subscription and the first massive frauds occurred (Dertilis, 1980).

¹The term 'Greek Diaspora' is used in the literature on Greek social and economic history to refer to Greek nationals living outside the Greek mainland.

The effort to construct an industrial infrastructure and to rationalise public administration continued during the early twentieth century under the premiership of Eleftherios Venizelos who is widely acknowledged as the greatest political figure of modern Greek history. By this time, Greek industry was encouraged by a state policy of protectionism and the huge industrial profits earned during the period of war 1912-1922 (First and Second Balkan Wars, First World War, Asia Minor Expedition). The result of these wars was that the territory of the Greek nation more than doubled and the population of the country increased significantly.

Industrial development received a boost after the military defeat of Greece in Asia Minor in 1922, when one and a half million refugees to Greece provided cheap labour and entrepreneurial skill. During the 1930s, there occurred a rapid expansion in investment and Greece achieved the third highest increase in industrial output in the world during that decade (Mouzelis, 1986, p. 54). This achievement was fostered by a policy of state intervention through protectionism, low tariffs for imported capital goods, grants and credit facilities, and generally import substitution measures. In other words, this spectacular industrial development was largely the result of 'greenhouse' conditions which had been purposefully created by the state (ibid.).

During the 1940s economic development was retarded by the Second World War, the German occupation, and the following five-year Civil War which resulted in an unprecedented destruction of the economy. When the Germans withdrew from the country in 1944, Greece was almost ruined. Using April 1941 as a base of 100, the cost of living had risen to an unbelievable 2,305,984,911 by October 1944, one of the highest rates of hyper-inflation ever recorded (Bank of Greece, 1978, p. 210). The degree of material destruction of the country in the Second World War is summarised in the following table.

Table 2.2: *Estimated Destruction of Greece during World War II 1940-1944*

	<u>percent (%)</u>
Population losses	10
Housing destruction	23
Railway bridges and tunnels blown up	100
Rolling stock and tracks lost	85
Merchant shipping lost	72
Docks destroyed	70
Agricultural and livestock production down to	24-40
Industrial output down to	15-25

Source: Data from Bank of Greece (1978, pp. 205-214)

With the assistance of massive American aid and very favourable investment terms post-war economic recovery² was rapid, especially following Greece's association with the Common Market in 1961 (Bank of Greece, 1978; Kintis, 1982; Mouzelis, 1986, p. 114). During the post-war period state control of the economy was greatly extended and, through the creation of specialised agencies, the state began to effect direct investments in a variety of economic projects. This involvement of the state in the economic sphere gained momentum during the late 1970s and continued during the immediate years following Greece's accession to the European Economic Community in 1980 (Charalambis, 1989, p. 284). Only by 1985 were there signs of a change in economic policy towards less state intervention (Stamatis, 1990). This shift became clear in 1990 when the New Democracy political party came to power and attempted to apply a New Right policy of deregulation and privatisation (*Economist*, 29 November 1992, pp. 119-126; *Economicos Tachydromos*, 9 June 1994, pp. 26-31).

As will be shown, the liberalisation of the Greek auditing profession in the early 1990s can be seen as a component of wider changes in economic policy and attitudes towards state intervention in the economy. However, in order to comprehend the context in which auditing developed in Greece, it is important to explore in more detail the nature of Greek party politics.

²The inflow of these funds helped to reconstruct the country. However, the role of the foreign economic missions in imposing a long-term dependence of the Greek economy by hindering economic self-sufficiency has also been claimed (Aggelopoulos, 1947; Tsoukalas, 1969, p. 129).

2.2 The Evolution of the Greek Political System

When Greece gained her independence in 1829 a period of unconstitutional monarchy followed, during which time power was shared between the Throne and a handful of notable families (clans or *Tzakia* in Greek). This period of purely oligarchic rule lasted until the mid-1860s, and has been related to the socio-economic conditions which prevailed during this time (Tsoukalas, 1969; Giner, 1986; Mouzelis, 1986). A period of oligarchic parliamentarism followed, which lasted until the pronunciamiento of 1909. During this time a semblance of two-party system was created, characterised by restricted popular participation, as clans were able to manipulate the electorate through a variety of legal and illegal means. The principal instrument used was the establishment of extensive political patronage networks, based principally at a local level.

The demise of oligarchic parliamentarism and the transition to a much broader democratic form of political participation took place as processes of market, state, and city expansion undermined the traditional mechanisms of political control and generated new political forces, following the 1909 pronunciamiento (Mouzelis, 1986). In the new environment, political power was shared between the old ruling class and a new middle class (lawyers, doctors, businessmen etc.). It is important to note that patronage relations did survive the sweeping reforms which were effected after 1909, not in the form of nineteenth century oligarchic clientism but through a transformation into a more centralised form of party and state-oriented patronage (ibid.).

A set-back in the gradual opening-up of the political system took place after the civil war 1945-1949 and the military defeat of the communist party. Following this conflict, an ideologically exclusive 'guided democracy' was established (Mouzelis, 1986), which culminated in the establishment of a seven-year military junta 1967-1974. Finally, democracy was restored in July 1974, monarchy was abolished, and the most openly democratic regime in modern Greek history was established (Charalambis, 1989).

Since 1974, national politics have been dominated by two major parties: New Democracy (right-centre) and PASOK (centre-left) which have repeatedly succeeded each other in power. As a result of the modernisation-democratisation of the political system and the considerable economic growth, Greece has become more integrated into Western Europe of which, as full member of European Union, is part. Nevertheless, the persistence of patronage relations are still considered to be one of the major problems of the Greek political system (Charalambis, 1989).

2.3 Corporatism and Interest Group Politics in Greece

Corporatism is the essential political context within which the Greek auditing profession has developed. Corporatism as a set of integrated and systematically presented socio-political ideas emerged in Western Europe during the second half of the nineteenth century (Williamson, 1989, p. 25). Corporatism regained prominence in advanced capitalist states after World War II, and in contemporary political terms it is used to refer to a set of political ideas which attempt to comprehend and explain how conflicts between increasingly organised interest groups are accommodated, and to whose benefit (Schmitter, 1982, p. 259).

In order to delineate the concept of corporatism it is worth referring to the ideal type definition given by Schmitter in his seminal paper *Still the Century of Corporatism?*:

"... Corporatism can be defined as a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered categories, recognised or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports" (1974, p. 93).

It has often been suggested that interest group politics in modern Greece are validly described by a corporatist model (Legg, 1969; Schmitter, 1974; Mavrogordatos, 1988a; Charalambis, 1989). Mouzelis (1986, pp. 73-76) described a version of corporatism as

common of Greece and other states of the parliamentary semi-periphery.³ A characteristic of these polities is the state's tendency to inhibit the formation of autonomous interest groups - *corps intermediaires*. The precise form in which the state tries to impose its tutelage is observed to vary with the degree of political development, and the difference is more evident between oligarchic to post-oligarchic parliamentarism (ibid.). Mouzelis described as "incorporative" the process of broadening political participation in the parliamentary semi-periphery, during which lower social groups and their representative organisations were brought into politics by the state. He called this political process "vertical/dependent incorporation", to distinguish it from the integrative, more horizontal mode of inclusion. The later form of corporatism is pertinent to the more autonomous and powerful groups in the advanced capitalist societies (ibid.). Further, for Mouzelis (ibid., p. 75) "... incorporation ... refers to the *de facto* control exercised by the state over associations which while on paper free from legal commitments to keep the 'social peace' are weak and therefore easily subjected to state manipulation and control" (italics and quotation marks in the original).

"Incorporation", as proposed by Mouzelis, is not a new species of corporatism; it is a variety pertinent to specific political and socio-economic circumstances. "Incorporation" is associated with societies in transition from the stage of relative backward economic and political development (semi-periphery) to the advanced, Western-European, type of advancement (for a discussion of this transition from a corporatist perspective see O'Donnel *et al.*, 1986).

As indicated above, Greece has been invariably classified as a corporatist state in comparative studies of interest group politics. The origins of Greek corporatism can be traced to the second decade of the twentieth century. As explained previously, the 1910s witnessed the end of oligarchic parliamentarism and the emergence of democratisation under the leadership of the bourgeois statesman Venizelos. Venizelos, surrounded by a number of

³In political terms countries of the semi-periphery or countries of the late-late development are assumed to stand halfway between advanced capitalist world and those lands further removed, in both economic and socio-political terms, from the historical centre of modernisation (see Giner, 1986, p. 11).

talented intellectuals, launched an impressive legislative programme and tried to establish an institutional framework for the representation of all social strata, following a corporatist model (Liakos, 1988; Mavrogordatos, 1988b; Moudopoulos, 1988).

Venizelos attempted to modernise the operation of the state and put in place the corner stone of the modern Greek legal system.⁴ As will be explained in the following chapter, it was during these years of corporatist inception that the first accounting regulation appeared in Greece, and it was under Venizelos premiership in 1931 that the first attempt was made to establish an auditing profession in Greece.

The corporatist model has been consistently followed by Greek administrations since World War II (Charalambis, 1989, p. 285). Mavrogordatos (1988a) has examined the relation between the state and the peak associations representing agriculture, labour, and employers since the end of the military junta in 1974. He specifically focused attention to the period after 1981 when the socialist government of PASOK came to power breaking an almost uninterrupted forty five-year period of right or right-wing administration. Mavrogordatos was able to demonstrate that all major political parties in Greece, either in opposition or in power, are in a position to influence and guide trade unions through established clientele relations with union leadership.

3. The Development of Accounting Regulation in Modern Greece

The history of accounting in modern Greece can be divided into two major periods. The first period, 1821-1918, was characterised by an absence of state intervention in accounting matters. This was the period of *laissez-faire* in Greek accounting, and is related to the wider socio-political context; the oligarchic period of Greek politics with its minimal popular participation. The second period, 1918 to date, has been characterised by the gradual but inexorable tendency for the Greek State to intervene in accounting and auditing. This section

⁴A note on the Greek legal system is presented in the appendix. This material is useful for the reader in order to understand the analysis in this and the following chapters.

gives an account of the history and current state of accounting regulation in Greece, which is essential background to understanding the development of the Greek auditing profession and the debate over its liberalisation.

3.1 The *Laissez-Faire* Period: Accounting and Limited Liability 1821-1918

Industrial and commercial activity in modern Greece has been mainly undertaken by a form of limited liability company known as joint-stock company⁵ (*Societe Anonyme* - SA). The joint-stock company was imported to Greece as early as 1822, via the adoption of the Napoleonic Commercial Code. This Code was formally translated into Greek in 1835 as the Greek Commercial Code. With respect to limited companies, the Greek Commercial Code (articles 19, 29 to 37, 40 and 45) included only some rudimentary provisions, and the operation of limited liability companies was effectively left unregulated (see Anagnostopoulos, 1937, pp. 94 and 549). The Greek version of the code also established the basic principles on which commercial activity was founded, and provided definitions of concepts such as merchant, merchandise and bankruptcy.

As Pamboukis has suggested (1989, p. 12), limited liability in Greece did not emerge as a natural progression, but was rather imposed by legislation. Table 2.3 shows that although joint-stock companies became established in Greece during the nineteenth century, the number of such companies increased significantly only with the advance of industrialisation after the turn of the twentieth century, and proliferated after 1921. Grigoracos (1964, p. 7) has argued that the sharp increase in corporate organisations was not a response to proportional economic growth. Rather, the increase in the number of joint-stock companies

⁵In Greece there are mainly two types of limited liability companies. The first is joint-stock company - a Greek version of the French *Societe Anonyme* (SA). The Greek joint-stock company is considered equivalent to the American Corporation or the British limited company. The joint-stock company (in Greek Ανώνυμος Εταιρία - ΑΕ, pronounced *Anonymos Etairia*) is the commonest legal form for large enterprises and is regulated by Law 2190/1920. The second type is the Company of Limited Liability which, although has limited liability, retains some traits of a partnership. The Greek for this form is Εταιρία Περιορισμένης Ευθύνης - ΕΠΕ, pronounced *Etairia Periorismenis Efthenis*. This form is regulated by law 3190/1955 and clearly bears Germanic influence.

was mainly the result of family partnerships converting to limited companies, in order to capitalise on the tax advantages of that status (see also Anagnostopoulos, 1937, p. 159).

Table 2.3: *Number of Joint-Stock Companies Established 1822-1930*

<u>period</u>	<u>Number of Companies</u>
1822-1860	32
1861-1900	185
1901-1910	76
1911-1920	167
1921-1930	763
total	1,223

Source: The above data are estimates extracted from a combination of sources reported in Anagnostopoulos (1937, pp. 94 and 159) and Grigoracos (1964, p. 7).

During the *laissez-faire* period limited companies experienced a very high mortality rate. According to Anagnostopoulos (1937, p. 94), only few of the 32 companies which were established during the period 1822-1860, managed to survive. Grigoracos (1964, p. 7) tentatively concluded that in 1900 there existed only 29 active companies.

As stated above the majority of the early companies were family concerns. This feature of business organisation in Greece has been considered as a possible explanation for an absence of state intervention in corporate affairs before the 1920s (Anagnostopoulos, 1937, p. 100). However, as the number of companies grew, and following several instances of fraud against shareholders and creditors, the need for regulation by the state was gradually recognised. Even during the *laissez-faire* period there were at least four attempts to impose company regulation in 1889, 1896, 1910 and 1913. However, all of these proved abortive (trans.): "... drafted Bills either failed to be debated at all, or if discussed at a first stage, were finally forgotten at some dusty record office" (Anagnostopoulos, *ibid.*, p. 100). It appears that interested entrepreneurs-proprietors of joint-stock-companies were powerful enough to prevent the introduction of any regulation (*ibid.*).

3.2 Accounting Regulation 1918 to Date

During this period the Greek State increasingly intervened in accounting matters. In the turbulent 1910s - when Greece entered into a period of perpetual military conflict - incidents of fraud became more common and several companies became insolvent (Anagnostopoulos, 1937). In addition, as has been explained, this decade witnessed dramatic political changes; the oligarchic period ended, the political system was opened up, and, most importantly for accounting, the foundations of state corporatism were laid by Venizelos who came to power in the early 1910s.

The first overt state intervention in accounting matters occurred in 1918 through law 1348/1918. This law attempted to regulate issues such as the estimation of accounting profits. Most importantly, the law brought all joint-stock companies under close state supervision. Its basic objective was to protect the public from profiteering and fraud, by improving existing and establishing new rules relating to the preparation of financial statements (report of parliamentary committee on law 1348/1918, quoted in Anagnostopoulos, 1937, p. 27). As was explained in Ministerial Circular 1824/2/21-1-1920, corporate accounting matters had remained in an anarchic state until law 1348/1920 was passed. Many companies had never taken inventory, never estimated depreciation, had distributed fictitious profits, or had presented misleading and deceptive financial statements.

It appears that law 1348/1918 had some effect in reducing discretion in corporate reporting, notwithstanding an acknowledged lack of skilled state accountants who were charged with the accounting supervision of joint-stock companies (preamble to law 2190/1920). However, law 1348/1918 was criticised on the grounds that it placed private companies under the guardianship and tutelage of the state (ibid.). Further, it was a hurried and temporary measure which was abolished in 1920, although most of its provisions were included in law 2190/1920 "On Joint-Stock Companies".

Law 2190/1920 was carefully framed and is considered to be a milestone in the development of Greek corporate legislation. Despite successive amendments and supplements, many of its essentials remain in effect. The new legislation relaxed state supervision which had been introduced by law 1348/1918, and further regulated on issues such as the setting up of a joint-stock company, its management, the composition of the board of directors, and the annual general meeting. In addition, rules were prescribed for the drawing up of annual financial statements, the appropriation of profits, and, for the first time, the appointment of external auditors.

During the 1920s a new series of bank collapses and other corporate failures occurred, partly due to poor management and fraud, and partly due to severe economic conditions following the disastrous military expedition in Asia Minor in 1922 (preamble to law 5076/1931, quoted in Anagnostopoulos, 1937, p. 69). As a consequence, the state interfered again through law 5076/1931. The new legislation amended and supplemented law 2190/1920, and regulated in detail the banking sector⁶ for the first time. Further, law 5076/1931 acknowledged the ineffectiveness of the existing system of audit and provided for the establishment of an institute of certified accountants (to be discussed in more detail later).

The next major interference by the state in accounting occurred in the 1950s in the form of the 'Code of Corporate Books and Documents'. This code, enacted by the Royal Decree of 7 July 1952 (which has been amended several times) concerned the performance of book-keeping by companies and other forms of business enterprise. Although tax-oriented, this code had a significant impact on the organisation of accounting work, establishing, for the first time, some principles of internal control. Further regulations were instituted through laws 3323/1955 and 3843/1958 "On the Imposition of Income Tax on Natural Persons", and "On the Imposition of Income Tax on Legal Entities", respectively. Both laws included several provisions relating to accounting matters.

⁶ Insurance companies had been regulated since late 1917, through law 1023/1917.

The last and most significant intervention was the establishment of the General Accounting Plan (GAP) in 1981 and the harmonisation of Greek company law with the EEC Directives in the late 1980s which had a significant effect on standardising accounting practice in Greece. Efforts for the compilation of a GAP had started in the early 1950s. However, these early attempts, supported initially by accounting academics and later by SOL, had proved fruitless as (trans.) "... some showed enough hostility and could not understand the great advantages of a general accounting plan" (preamble to the GAP, Ministry of National Economy *et al.*, 1987, p. 49).

The Greek GAP draws on its French counterpart. The GAP was gradually implemented⁷ from the mid-1980's and, in addition to providing for a uniform chart of accounts, it also includes detailed provisions for the drawing up of annual financial statements, their format and the accounting principles to be applied. The plan is generally considered to be a manual for almost every aspect of corporate accounting work. It is important to recognise that the GAP was fully in line with the relevant provisions of the fourth EEC Directive. In addition, sectoral accounting plans for insurance companies and banks have also been enacted. All major enterprises are bound to use the pertinent accounting plan. Further, small companies (as defined by the criteria laid down by the Fourth EEC Directive) are bound to present abridged financial statements, according to the provisions of the National Accounting Plan.

The incidence of state intervention in accounting matters has attracted criticism from many parties, such as the Confederation of Greek Industries, various professional associations of accountants, and the auditing profession. The profiles of these parties will be presented in chapter three. However, it is generally admitted that state intervention has brought some order to Greek accounting practice. Before World War II, a great many companies, especially of small or medium size, hardly kept any kind of accounting records. It was only

⁷In order to assist in the implementation of the GAP, law 1819/1988 was passed in 1988 which provided for the establishment of the Εθνικό Συμβούλιο Λογιστικής – ΕΣΥΛ (Ethniko Symvoulío Logistikis - ESYL, trans.: National Accounting Council). Among the responsibilities of ESYL were to prepare any necessary amendment or revision to the GAP, and to issue any guidelines relating its application.

after the implementation of the 'Code of Corporate Books and Documents' in 1952 that most companies began to maintain adequate books (Ministry of Co-ordination, 1952; Ministry of National Economy *et al.*, 1987, p. 48). Tsimaras (1958, p. 37) emphasised that (trans.): "... for many (businessmen) the maintenance of books of account is a very burdensome state intervention of a tax nature. If it were not legally enforceable, accounting practice would be limited to keeping a few creditor and debtor accounts" (my brackets).

It is now widely accepted in Greece that there were two basic reasons behind state intervention in accounting matters. Firstly, it was an attempt to improve corporate governance and accountability, and facilitate the effective running of the economy. Secondly, intervention was intended to facilitate tax collection, as tax evasion was considered to have reached huge proportions. Discourse concerning tax-evasion is common place in Greece. The need to curb tax-evasion is routinely reiterated in all tax legislation, the annual state budget, and the annual report of the Governor of the Bank of Issue. The level of tax-evasion is widely believed to be in the range of thirty to forty per cent of the Gross National Product (GNP). Pavlopoulos (1987) made an attempt to measure the size of the *black market* in Greece using data from the national accounts and tentatively estimated that it ranged between 25 and 35 percent of the GNP.⁸

In conclusion, it should be said that the period of state regulation in Greek accounting since 1918 can be associated with industrialisation and the expansion of limited liability companies, the democratisation of the political system, the establishment of corporatist arrangements, and direct state intervention in the management of the national economy. This stands in sharp contrast to the previous period of *laissez-faire*, oligarchy, and the very low levels of industrialisation and economic development.

⁸On the issue of tax-evasion see also, International Monetary Fund (1992).

4. The Development of Corporate Auditing in Modern Greece

The birth and development of Greek auditing occurred during the period of state intervention. In this section the fruitless attempts by the state to impose corporate auditing before World War II are presented and the conditions under which SOL was established in 1955 are analysed. SOL was created as a state corporatist intermediary, a component of a wider attempt by the state to regulate the economy and boost economic development.

4.1 The Origins of Corporate Auditing

As has been mentioned, law 2190/1920 instituted the audit of company financial statements by external auditors. Specifically, article 36 of the law (Anagnostopoulos, 1937, p. 49) prescribed that the annual balance-sheet of a joint-stock company should be audited by at least two auditors appointed by the annual general meeting of shareholders. Further, article 37 stipulated that:

- 1) auditors had the right of full access to any corporate document, book, or account, and also the right to convene an extraordinary general meeting, should they deem it necessary;
- 2) at the year end, auditors should audit the balance-sheet of the company and submit a report thereof to the general meeting of shareholders.

Article 37 of law 2190/1920 also defined the meaning of the balance-sheet audit as comprising, at a minimum (trans.): "... the ascertainment of the accuracy and legality of accounting entries from which the balance-sheet items are derived" (Anagnostopoulos, 1937, p. 50). With respect to the drawing up of the annual balance-sheet, article 43 prescribed that (trans.): "... the balance-sheet should be prepared with absolute clarity so that the true financial position of the company can be easily and safely derived therefrom" (ibid., p. 52). In relation to the profit and loss account a separate sentence ruled that (trans.): "... the analysis of the profit and loss account must accompany any balance sheet establishing the actually realised profits and incurred losses" (ibid.).

Under law 2190/1920 the preparation and presentation of a profit and loss account was made obligatory, but the audit was limited to the balance sheet. Within this framework audit reports typically mentioned that auditors (trans.): "... have found complete accuracy of the entries and agreement of the ledger balances with the balance sheet" (Brugge, 1963, p. 599). A sample of this report is presented in Figure A2.1 in the appendix.

This was the legal framework for auditing that prevailed during the period from 1920 to the establishment of SOL in 1955. It could be noted that although auditors had formal powers to properly conduct their duties, before 1955 the auditors' qualifications were not prescribed by the law. This meant, in practical terms, that virtually anyone could be appointed as auditor⁹. Further, there were no auditing standards or guidelines available to the would-be practising accountants.

Another complicating factor was that the great majority of the Greek companies were of a family-type and there was little separation between ownership and management. As a result, auditing in Greece was perceived not as a market need, but rather as an attempt by the state to impose standards of corporate governance and accountability. Due to these limitations, auditing under the law 2190/1920 was largely defective, as will be shown.

4.2 The Abortive Attempt at Corporatist Intermediation in 1931

The corporate scandals and collapses of the 1920s revealed the ineffectiveness of the system of auditing. The situation was subject to trenchant criticism by many eminent professors of commercial law in Greece. In 1923 Theodoropoulos (Director of the Ministry of National Economy and framer of the law 2190/1920) argued that auditors were appointed on the basis of their loyalty to the majority of shareholders and the board of directors, rather than on their competency (p. 94). Theodoropoulos further argued that auditors lacked the necessary technical knowledge to accomplish their difficult task, and proposed the establishment of an institute of auditors to remedy the situation (ibid.). In 1930 Caravas suggested that (trans.):

⁹It was later prescribed in law 2190/1920 (new article 36a added through law 4237/1962), that auditors should hold a University degree in economics and accountancy.

"... the practice of auditing is clearly perfunctory aiming at covering the letter rather than the spirit of the law, and this is a mockery towards the state, the shareholders, and other interested parties" (p. 19). Sinopoulos concurred with this view and suggested (trans.): "... the institution (auditing) has totally failed and (the appointment of an auditor) has become a sinecure" (1932, p. 40, my brackets).

The public criticism called for a new state intervention in accounting matters which would be law 5076/1931 in 1931. Valuable insights can be gained from studying the parliamentary meetings and other relevant parliamentary material. It seems that the corporate governance crisis of the 1920s was very serious. In the parliamentary discussion of law 5076/1931 (quoted in Anagnostopoulos, 1937, p. 162) it was referred that, for an examination of the scandals in which joint-stock companies were implicated, almost a thousand of skilled personnel would be required. However, premier Venizelos recognised that there was no accounting expertise available, and additionally, the state could not afford such a number of accountants. On the other hand, a close state supervision of private companies was not deemed functional and beneficial in the long run.

It appears that there were at least two different views in the parliament: those who favoured tight state control, and those with a clearly liberal attitude, supporting no or minimal state involvement in corporate matters. The government decisively stood somewhere in the middle and shifted attention from close state supervision to external regular audits. Nevertheless, not only the provisions relative to external auditing, but the whole Bill met severe resistance.¹⁰ Premier Venizelos during the parliamentary discussion on 17 December 1930 warned governmental benches that the government gave utmost importance to the passing of the Bill, and that his administration was indifferent to any resistance (Anagnostopoulos, 1937, p. 77).

¹⁰Professor of Commercial Law E. Anastasiades in a newspaper article (*Elefthero Vima*, 3 March 1931) made a rather vague critique of the government's proposals and emphasised that no other country had instituted a professional body of auditors by law. He speculated that the attempt would ultimately fail and argued that there was a risk that members of the Institute would promptly become a parasite at the expense of either the state budget or audited companies.

It is also interesting to see that the arguments in the parliamentary discussions were very well advanced and made extensive use of the mode of regulation, the corporate legislation, and the experience gained in countries such as Germany, Britain, France, and the USA. Nevertheless, Law 5076/1931 was finally passed in July 1931. In response to the apparent failure of the audit system established under law 2190/1920, the state attempted to institute a corporatist intermediary; an institute of auditors enjoying official public status. Article 31 of law 5076/1931 provided¹¹ for the establishment, under the supervision of the Ministry of National Economy, of an Institute of Certified Accountants. Members of this Institute might perform the statutory audits of joint-stock companies and any other form of enterprise, as well as conduct expert investigations into the administration of private or state enterprises.

The details of the establishment of the Institute of Auditors would be provided through decrees issued by the Ministry of National Economy. The first two Decrees were issued in April 1932, but were soon superseded by three newer pieces of legislation which, at least on paper, established¹² the Institute of Certified Accountants as an independent body under the supervision of the Ministry of National Economy. There were four basic characteristics of the organisation of the new Institute. First, the appointment of corporate auditors from the Institute was not to be obligatory, but this was anticipated to become in the future. Second, the new Institute would be governed by a supervisory council appointed by the state on which representatives of audited companies would participate. Third, audit fees would be determined by the supervisory council using objective criteria. Finally, the number of certified accountants was to be determined by law. In other words, the establishment of this institute was an attempt to create a corporatist intermediary - a closed profession under state patronage.

¹¹Law 5076/1931, also attempted to streamline state supervision of companies and provided that an audit might be ordered, through a judicial decision, at the request by a minority shareholding or the Ministry of National Economy, or the Stock Exchange for listed companies. These audits would be undertaken by senior public servants or accountants from state banks.

¹²This new legislation comprised the Ministerial Decision 48681/22-7-1932, the Decree of September 11, 1932, and Ministerial Decision 72993/25-11-1932.

However, the new institution was ill-fated. Not only was the appointment of auditors from the Institute optional for companies, but some adverse political developments took place. Venizelos lost the national elections held in 1932, and the administrations which followed did not pursue the implementation of the new institution. As a result the Institute did not operate before World War II. The four-year German occupation and the following five-year Civil War also resulted in a further postponement of the Institute's operation (Mattingly, 1964, p. 997; Campalouris, 1969).

In fact, the issue of the corporate auditing was forgotten and it appears that the new Institute was tacitly abolished. As a consequence, contemporary audit practice continued to attract trenchant criticism from academics during the 1940s and 1950s. In 1949 Anastasiades argued that (trans.): "... auditors limit their action to signing a report prepared by the Board of Directors, sometimes even without reading it" (p. 382). In 1953 Tsoutrellis suggested that (trans.): "... auditing is a chance given to the Board of Directors to reward their friends and relatives" (p. 53). Tsirindanis (1960, p. 151) summarised the state of auditing as follows (trans.):

"... Although there are special provisions in the law facilitating the audit, in practice auditing has become shadowy. This occurs for the simple reason that auditors are appointed by the majority of the annual general meeting and the interests of this majority, as a rule, coincide with those of the Board of Directors (this happens as the majority shareholders are predominantly the elected members of the Board of Directors). Hence, an audit by persons appointed by this majority means that the Board of Directors in essence audit themselves through persons loyal to them, and whose election they can guarantee" (parentheses in the original).

Nevertheless, a new institute, SOL, was to be established in 1955 and succeeded where its antecedent, the institute established under law 5076/1931, had failed to materialise. The institution of SOL as a corporatist intermediary is the subject of the remainder of this chapter.

4.3 The Establishment of SOL in 1955: A Corporatist Institution

As explained earlier, the German occupation during World War II (1940-1944) and the civil war which followed (1945-1949) left Greece almost ruined. The reconstruction of the devastated country was mainly effected through the USA Marshall Plan, in the context of the Truman Doctrine which was formally announced in March 1947 and aimed at repelling communism. The late 1940s was the time when Greece came under American influence (see among others Tsoukalas, 1969; Mouzelis, 1986).

The American aid was channelled to Greece through the Special Mission of the Economic Co-operation Administration - the ECA Mission, an agency set up in Athens following an agreement signed between the Greek and the American governments on 2 July 1948 (see Ministry of Co-ordination, 1952). The role of the ECA Mission was to supervise the utilisation of all aid given to Greece under the Marshall Plan (Freris, 1986, p. 130). Another agreement was signed between the Greek Government¹³ and the ECA Mission on 27 November 1948, and provided for the use of British chartered accountants¹⁴ to render professional accountancy services in relation to loans and aid emanating from the Marshall Plan (Ministry of Co-ordination, 1952, pp. 1-7). Under the above agreement (ibid., p. 1) it was stated that:

"... It is generally recognised that all Greek business enterprises should install and at all times maintain adequate accounting records. Accounting standards in Greece have fallen as a result of the enemy occupation. Furthermore, there are no Greek Public Accountants such as are to be found in the United States or Great Britain. The expansion of the Greek industry through the loans which it is proposed to make available under the ECA four-year program calls for higher standards of accounting than ever before, in order that the financial requirements of each industry may be accurately assessed and the proper use insured of such loans as are granted"

¹³This agreement was signed by the Minister of Co-ordination S. Stefanopoulos and the Chief of the ECA Mission H. F. Grady.

¹⁴A British Economic Mission, at the request of the Greek Government, had been established in Greece since 1946, to advise on rebuilding the economy (Mattingly, 1964). Several British Chartered Accountants were included in the Mission to assist with administrative and accounting matters.

According to the agreement, the role of British chartered accountants was not restricted to professional accountancy services, but also included the provision of assistance in improving the standard of accounting education: "... in order to ... raise the standard of accountancy in Greece that a body of Greek Public Accountants may be established at an early date (ibid., p. 3).

It appears that the international agencies which were anxious to secure the repayment of the reconstruction loans demanded the creation of an effective auditing infrastructure through the establishment of a professional body. In implementation of the Greek-American agreement, the Greek government appointed a partnership of three British chartered accountants¹⁵ on 25 January 1949 (Ministry of Co-ordination, 1952, pp. 13-35). This contract expired on 31 August 1952. By virtue of Legislative Decree 2181/1952, a new contract was signed between the Greek government and the partnership of the British chartered accountants¹⁶ in 30 August 1952 (Ministry of Co-ordination, 1952, pp. 38-54). The passing of Legislative Decree 2181/1952 through the National Parliament attracted fierce criticism by the opposition who questioned the ability of the British accountants to deliver high quality services. Another controversial issue was the extremely favourable economic terms for the British auditors (see Ballas, 1996, pp. 12-14).

Article 2 (I-3) of the contract of 30 August 1952 between the Greek government and the partnership of British accountants postulated that: "... the partnership undertakes to ... advice ... and assist ... the Greek government in the establishment, organisation, and follow-up of an Institute of Greek Certified Accountants". Following this agreement and after protracted deliberation (Mattingly, 1964), on 21 August 1955 the Greek Parliament passed the law 3329/1955: "On the establishment of Soma Orkoton Logiston - SOL" (*Government Gazette*, A/230/1955). Thus, the Greek auditing profession, SOL, came into life. As will be explained, the details of this new body had many similarities with the ill-fated institute

¹⁵The three British accountants were; H. Butler (FCA, partner in Moores, Carson, and Watson), R. Castle (FCA, partner in Tansley, Witt, and Company), and K. Smith (ACA, ACWA).

¹⁶In the new contract, L. Phillipson, ACA, was substituted for K. Smith, ACA, ACWA.

established under law 5076/1931. The critical difference, however, was that the appointment of auditors from a new institute would now be made compulsory, and there was to be a tighter control of audit practitioners.

Under the provisions of article 17 of law 3329/1955 (the law which established SOL), yet another contract was signed between the Greek government and five chartered accountants from the British Economic Mission. These accountants stayed in Greece for five years (until June 1960) and established the infrastructure of Greek auditing. They trained auditors, developed auditing rules and manuals to be followed by the new practitioners, and supervised their work by reviewing working papers and auditors' reports. Two of the chartered accountants, Leslie Mattingly and Richard Castle, remained in Greece for another five years as technical consultants to the new Institute (Mattingly, 1964).

Following its enactment, the Law establishing SOL received only minor amendments and supplements. The most significant one was Presidential Decree 15/1989, which brought the legislation governing SOL into line with the EEC Eighth Directive.

The Institute of SOL, as will be discussed later, was established to operate not only as a professional association, but also to engage in professional activities and provide residence for its members (Mattingly, 1964). The tasks that might be granted to the new body according to the law 3329/1955 (articles 2-4) were:

- 1) to perform the statutory audits of corporate annual financial statements;
- 2) to provide expert opinion on administrative or accounting issues ordered by courts, public authorities, or the Court of Audit;¹⁷
- 3) to perform management audits of legal entities of the public sector such as insurance funds, municipal enterprises etc.

¹⁷The Court of Audit or State Audit Department is a higher court auditing all public expenditure, and is an independent body. It was established shortly after the liberation of Greece, in 1833. It is equivalent to the *Cour Des Comptes* in France or the Auditor-General in Anglo-Saxon countries.

It was intended that members of SOL would be primarily confined to audit¹⁸ work. Further, the implementation of the new institution was intended to be evolutionary rather than revolutionary, as the latter approach (trans.): "... might destroy the new institution in the bud, due mainly to an almost absolute lack of qualified manpower to perform audits" (preamble to law 3329/1955 quoted in Grigoracos, 1989a, pp. 94-95). In this vein, the first appointments assigned to SOL were mainly the audits of state organisations, public utilities, social security funds, and expert investigations ordered by courts. These assignments were allocated to SOL progressively through legislation.

Initially, a few state organisations were subjected to audit and according to Grigoracos the audit assignments encountered resistance not only from the organisations concerned, but also from within the government (interview, 14 January 1994). An incident which played a vital role in relation to audit assignments was a well publicised embezzlement in one state organisation which was discovered¹⁹ by members of SOL (*Ethnos*, 25 June 1957). It appeared that this had a catalytic effect on extending SOL's jurisdiction, as one month later fifteen social security funds were subjected to audits by SOL (Ministerial Decision 27728/749/27-7-1957, Ministry of Co-ordination).

Although private companies could be audited by SOL this was initially voluntary, and few such companies were audited as a result. However, it was clearly intended (preamble to law 3329/1955) that private companies would be subjected to a statutory audit by SOL soon after 1955. Private joint-stock companies came under statutory audit by SOL in stages. In 1960, the government decided to bring all companies listed on the Athens Stock Exchange (ASE) under SOL's jurisdiction, despite criticism from the business community (*Naftemporikie*, 17 and 18 December 1959). More companies came under SOL's jurisdiction in 1979 when joint-stock oil companies (industrial or trading) were subjected to the statutory audit (Ministerial Decision 5809/B683/1979, *Government Gazette*, B/627/20-

¹⁸It was later provided by law 4107/1960 that members of SOL could, as experts, undertake any accounting reorganisation work, on request from companies.

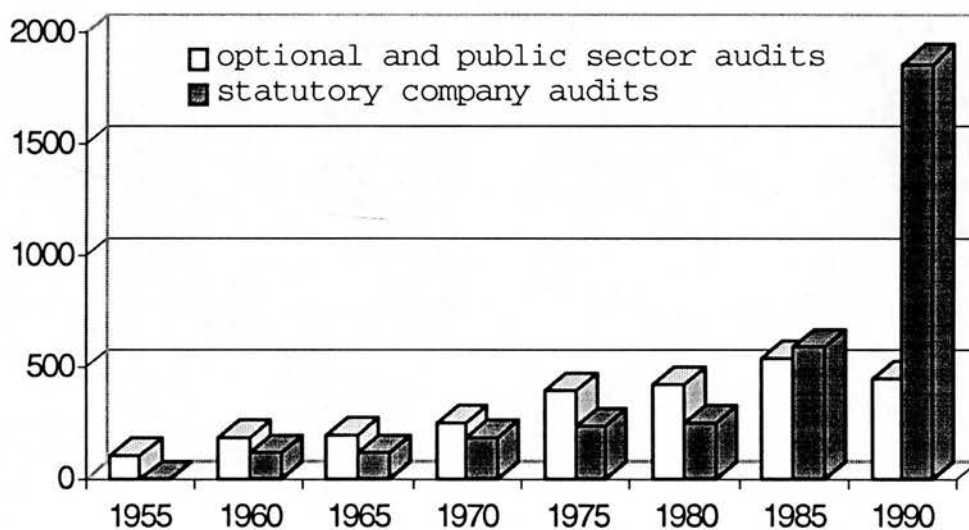
¹⁹The discovery of this embezzlement was made by Th. Grigoracos, the later distinguished certified accountant.

07-1979). Further, in 1984, by virtue of Ministerial Decision K3/2098/1983 (*Government Gazette*, B 505/1983), certain categories of companies which had assets greater than 400 million Drachmas²⁰ were required to be audited by SOL. This measure was introduced following some successful lobbying by SOL (interview with a CPA of SOL, 20 January 1994). The measure was also intended as a step towards the implementation by Greece of the EEC Fourth Directive, which took place in November 1986. Under the provisions of this Directive all joint-stock companies (AE), limited companies (EPE), and limited partnerships with shares (EE) were subjected to a statutory audit, provided they met two of the following criteria for two consecutive years;²¹

- 1) balance sheet total Drs 400,000.000;
- 2) net turnover Drs 800,000,000;
- 3) average number of employees during the financial year 50.

The expansion of the workload of SOL from its inception in 1955 to 1990 is presented in following figure.

Figure 2.2: *The Nature of Audits Assigned to SOL 1955-1990*



²⁰Drachma is the Greek currency and approximately 380 DRS are currently exchanged for one British Pound.

²¹The amounts referred here are the adjusted ones in 1990 according to the Directive 90/604/EEC, and are the equivalent of ECU 2m and 4m respectively.

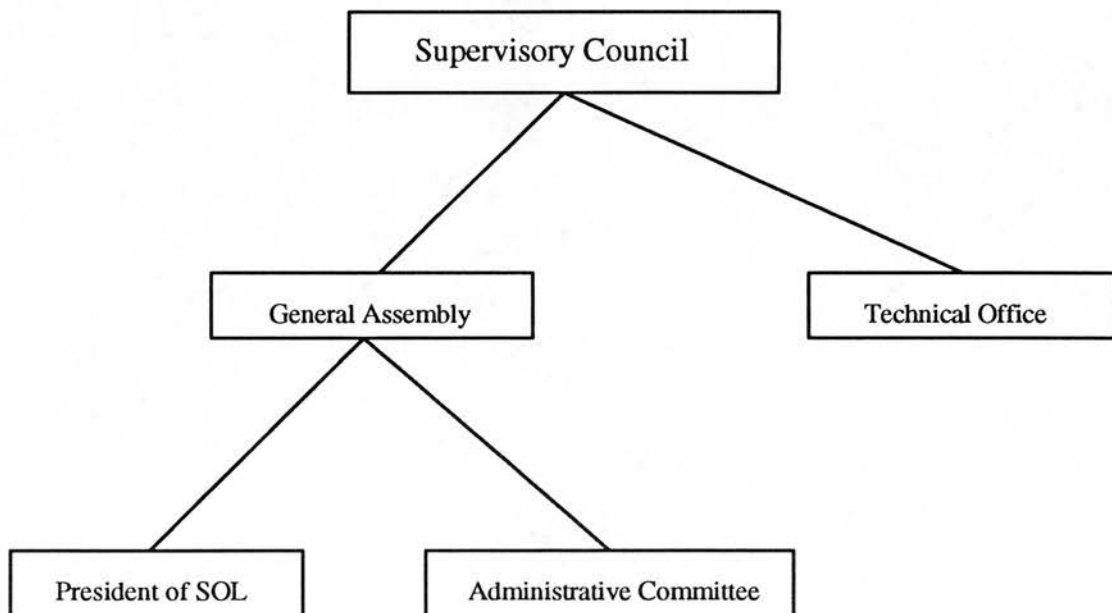
5. The Organisation of SOL

As explained above SOL was established in 1955 as a state corporatist institution with the main objective to undertake statutory audits in the private and public sectors of the economy. This section explains in some detail the organisation of SOL, its mode of operation, and highlights the corporatist characteristics of the Greek auditing profession. The information given here is essential for understanding the intra-professional conflict which arose between SOL and SELE, and for assessing the arguments advanced.

5.1 The Administration of SOL

SOL was established as both a professional institute and an organisation whose members engaged in auditing. SOL was intended to be organisationally independent from the state, and its self-administration was expected to increase in the years subsequent to its institution. An organisation chart of SOL is shown in the following figure.

Figure 2.3: *Organisation Chart of SOL*



Law 3329/1955 which established SOL provided for three organs of administration (hereinafter when the relevant law is not mentioned, law 3329/1955 is meant). The first

organ was the **Supervisory Council**. The Supervisory Council (SC) functioned as an independent public authority and assumed the following responsibilities:

- 1) to organise and regulate examinations for admission to the profession;
- 2) to regulate and oversee the promotion of members;
- 3) to issue auditing standards and guidelines;
- 4) to supervise SOL and exercise disciplinary action.²²

Despite the wide range of responsibilities, the SC did not interfere with the routine performance of auditing. The SC had five members and each had a four-year term of office. Four members were appointed by the government and the fifth was ex-officio the elected President of SOL. The four appointees were:

- 1) a member of the State Audit Department (Court of Audit);
- 2) a professor in a related discipline;
- 3) a representative of the Ministry of Commerce and a representative of the Ministry National Economy having specialist knowledge in accounting and/or commercial law.

The legal status of the SC was not defined in the enabling act. However, the SC operated as an autonomous and independent public service organ, in the sense that it promoted the 'public interest' as opposed to being subjected to political pressure. This was stressed in the preamble to the establishing law (quoted in Grigoracos, 1989a, p. 96). The preamble to law 4170/1960, which partly amended and supplemented the enabling law, highlighted the success of the new institution and its acceptance by the public and the markets. This success was attributed to the autonomy and independence²³ of the SC from government interference, especially with respect to the determination of an auditor's opinion. Any such interference was strictly forbidden by article 12 and there is no known instance of such interference to date.²⁴

²²Disciplinary action was exercised several times during the period 1955 to 1990. As a result, three members of SOL were expelled; one for unacceptable social behaviour, one for being unproductive, and one for substandard performance.

²³The legal status of the SC as an 'independent public authority' was reinforced by the Council of State, decision 447/1958.

²⁴This clarification is necessary because in modern Greek politics it is not unusual for the incumbent government to interfere on issues that should not be expected to do so. This

The second organ concerning the administration of SOL was the **General Assembly**. All Certified Public Accountants (CPAs) and Assistant Certified Public Accountants (ACPAs) were members of this organ. The Assembly was empowered to consider and adjudicate on issues relating to the conduct of audits, and submitted its proposals to the SC. The agenda of the General Assembly included issues such as proposals for updating auditing standards and current legislation, the admission of new practitioners to the profession, and the approval of SOL's own annual financial statements.

The General Assembly also elected the **President of SOL** (the ex-officio member of the SC) and the four members of the **Administrative Committee**. These office bearers served three-year terms. The five elected individuals, who were all practising accountants, were responsible for implementing the decisions issued by the SC and the administration of SOL. In performing their duties the President and the Administrative Committee (AC) were assisted by SOL's administrative personnel which comprised about 40 persons, as of December 1992.

The **Technical Office (TO)**, formally established in 1987,²⁵ was a committee consisting exclusively of experienced CPAs. The TO comprised two divisions (interview with a member of the TO, 20 January 1994). The Division of Auditing Standards had responsibility for developing and monitoring auditing standards and also issued auditing guidelines and manuals. The Audit Division was responsible for audit quality. It might undertake, on a random-sample basis, an annual review of a number of audit files to ascertain that high standards of performance were maintained. Both divisions reported to the SC. The Audit Division, at the request of the SC, could also examine the validity of alleged malpractice by a member of SOL (ibid.).

practice is related to the operation of extensive state patronage networks as has been explained in the previous chapter.

²⁵A Technical Office was established from the inception of SOL, consisting of British chartered accountants. When the British accountants left Greece in June 1964, after their contract had expired, the Technical Office actually did not work, at least on a permanent basis. In 1983 it was re-established but on a voluntary basis. Finally, with the expansion of SOL, the need for a Technical Office became obvious and it was formally established in 1987 (interview with CPA Protosaltis, 20 January 1994).

The initial structure of SOL with its emphasis on central control was intended to be transitory. Legislation provided that:

- 1) three years after the establishment of SOL, the SC may transfer part of its responsibilities to the Administrative Committee (article 8 of law 3329/1955);
- 2) four years after the establishment of SOL, more CPAs would be allowed to participate in the SC, by virtue of a Presidential Decree (article 6 of law 3329/1955);
- 3) two or more CPAs, under the permission of the SC, may establish an 'independent office' (article 7, law 4107/1960).

However, of these intentions only the first was to be implemented. Specifically, most routine aspects of administration and professional auditing issues were gradually handed over to the AC. The ultimate decision on important issues such as the admission of new members, promotion, and the setting of fees remained the responsibility of the SC. Pressure exerted by members of SOL for the implementation of the second provision proved fruitless. Neither was the third provision implemented, although there were often rumours of impending liberalisation of the profession during the lifetime of SOL. Such a course of action, however, was not to be taken by the state until 1991, as will be explained in later chapters.

One reason advanced why the state did not act upon the original declaration of intent, was the perceived success of the existing arrangements of SOL and the quality of audit practice offered by its members. This success has been highlighted by statesmen in the preambles to all laws which later amended or supplemented the basic law 3329/1955. The preamble to Presidential Decree 15/1989, which brought Greek legislation into line with the EEC Eighth Directive stated that (trans.) "... the success of SOL is generally recognised and should be basically attributed to the way in which the profession is organised" (quoted in Grigoracos, 1989a, pp. 81-82). Another reason which could be put forward is that members of SOL, and particularly the leadership, had been reluctant to pursue a change towards a liberal profession²⁶ (interviews with three CPAs of SOL, 10, 14 and 19 January 1994).

²⁶The word 'liberal' in Greek is used to denote that such a professional is not an employee.

5.2 Admission, Promotion, and Education of Members

Admission to SOL was dependent on passing national examinations. Exams were convened according to the demand for practitioners. During the 1980s such exams were organised relatively often (almost every two years), as a result of the great expansion of auditing in Greece. At a first stage, admission of new members was decided by the General Assembly. The Administrative Committee subsequently made a proposal to the Supervisory Council which made the final decision concerning the admission of new members, and also organised and regulated the exams. These exams were renown for their high standards and, with a success rate between 5% and 15%, were considered to be some of the most difficult in Greece. The examinations were of a University exit level and the subjects examined included cost and management accounting, financial accounting, commercial and company law, tax legislation, civil law, and a foreign language.

In order to sit the exams, all candidates should have a University degree in Economics, possess a background in accounting, have no criminal convictions, and 'be of high moral principles'. The latter concept was never given a comprehensive meaning; rather it aimed at emphasising the importance of adherence to high standards of ethical behaviour among members. The Greek 'to be of high moral principles' should be considered equivalent to the requirement of the Eighth EEC Directive that auditors should be of 'good repute'.

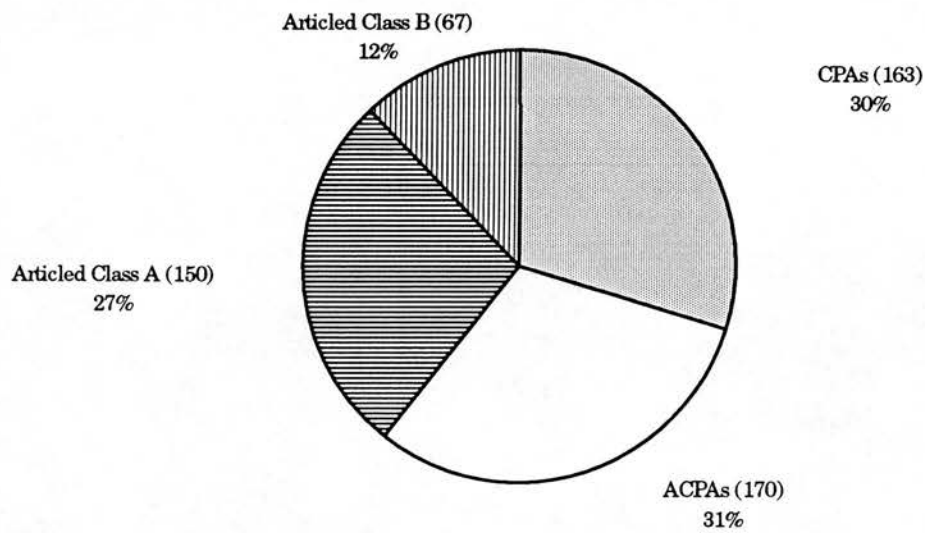
There were four ranks of auditors within SOL: Articled Class B (junior), Articled Class A (senior), Assistant Certified Public Accountant (ACPA - manager), and Certified Public Accountant (CPA). Once a candidate passed the preliminary entrance exams he became an Articled B. Three years of successful service at this rank and the passing of further professional exams²⁷ entitled the new practitioner to become an Articled Class A. After five years of successful service in the rank of Articled Class A (which was assessed by the

²⁷These exams were based on three sets of taught courses, one per year, on various practical and theoretical subjects. The courses were organised both, during and outwith working hours.

supervisor CPA), the practitioner became ACPA. Three more years of service at this rank was necessary for one to achieve the full qualification of CPA.

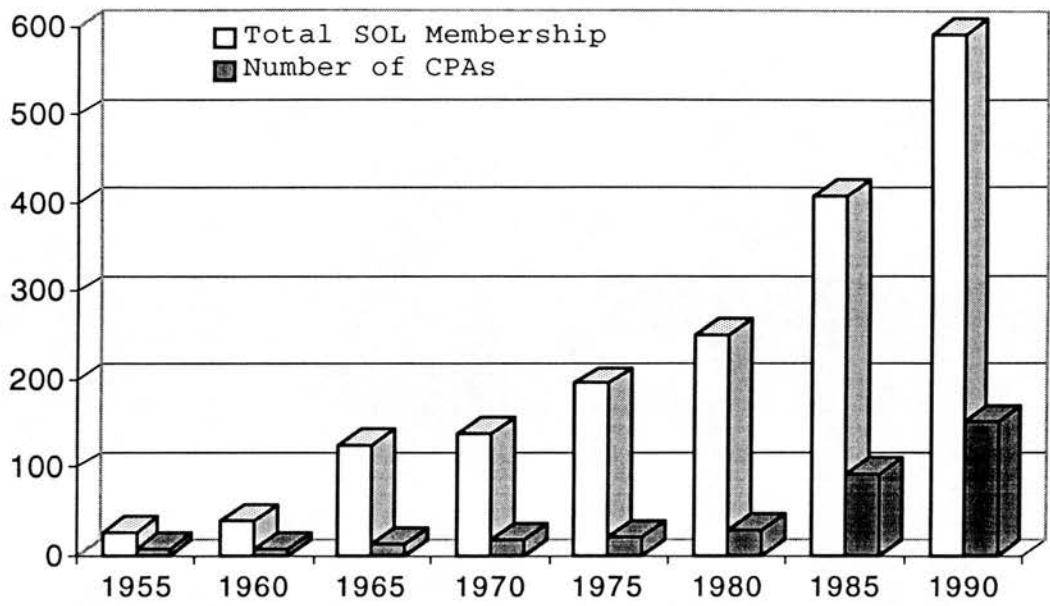
The membership of SOL by rank as of December 1992 is presented in figure 2.4. The evolution of SOL membership from 1955 to 1990 is shown in figure 2.5.

Figure 2.4: *SOL's Membership by Rank as of December 1992*



Note. The numbers in parentheses indicate the membership of each auditor rank (total 550).

Figure 2.5: *SOL's Membership 1955-1990*



A scheme of continuing professional education was run by SOL's **Educational Centre** and was co-ordinated by an **Educational Committee**. The Educational Centre offered a series of seminars and lectures on various subjects related to the practice of the profession. The Education Centre was also responsible for holding exams for the promotion of Articled Class B to the rank of Articled Class A. During the late 1950s and early 1960s some 15 to 20 members of SOL were sponsored and went abroad for practical training with leading accounting firms in England, Canada, and USA, or for postgraduate studies (Mattingly, 1964). In the late 1980s and early 1990s four new members were sent abroad for a master's degree.

5.3 Accounting and Auditing Standards

SOL became a member of the International Accounting Standards Committee (IASC) in 1973, and all accounting standards promulgated by IASC were translated into Greek and distributed free of charge to audited companies. These standards were also applied by SOL to the extent that they were compatible with national legislation. Although, in principle, there were no real differences between the Greek accounting standards as analysed in law 2190/1920 and the General Accounting Plan, things were (and still are) complicated by tax

legislation which often encroaches upon accounting matters (interview with CPA Protopsaltis, 20 January 1994). This state of affairs has been repeatedly criticised by members of SOL (see for example Delteion Forologigis Nomothesias, 1969, p. 945, and 1970, p. 721). Grigoracos (1970), among others, proposed that companies should prepare two sets of financial statements; one according to accounting standards and one for tax purposes. This proposal (which is followed in several countries such as the USA) has not as yet been enacted in Greece.

With respect to auditing standards, shortly after the inception of SOL in 1955 it was understood that besides good training and strict admission procedures, the establishment of standards of practice was indispensable to ensure a high quality of auditing. These standards were also a means by which an auditor could protect himself against alleged malpractice. On an initiative taken by K. Spiliopoulos (the then President of the SC), the British technical consultant Leslie Mattingly compiled the first Greek auditing standards which were approved by the SC in January 1961. Mattingly, in preparing these standards "... was very much influenced by the American 'generally accepted auditing standards', but of course, it was necessary to consider conditions which existed in Greece due to different laws, customs and accounting requirements" (Mattingly, 1964, p. 1000).

Existing auditing standards were formally updated and codified in December 1979 (*Government Gazette*, B/1119/18-12-1979). They comprised four groups of standards, of which only the first two were published in 1979. The first group, '*Basic Standards*', discussed issues such as the objective of financial statement audits, the qualifications, responsibilities and rights of auditors, and their approach to audits. The second group, '*Standards of Proper Conduct*', defined general principles concerning how, in a practical sense, auditors should conduct their audit and collect evidential matter, so as to formulate an appropriate professional opinion. The third group entitled '*Auditor's Report*' related to rules for drafting an auditor's report and was formally published in March 1993 (*Government Gazette*, 126/B/5-3-1993). Finally, the '*Standards of Professional Ethics*' dealt with the

basic principles of proper professional behaviour. This last group of auditing standards was never formally published. However, within SOL internal by-laws and regulations covered similar and related issues.

In addition, SOL, being a founding member of the 'International Federation of Accountants' (IFAC) which was established in 1977, and a full member of '*La Federation des Experts Comptables Europeens*' (FEE) since 1986, accepted all auditing standards and guidelines promulgated by these organisations. Such statements were translated into Greek and distributed to all SOL members. They were also taught in seminars organised by the Education Centre.

5.4 Auditing and 'The Real Picture'

In relation to the objectives of financial statement audits, as defined by standards of SOL, some clarification is necessary. Law 3329/1955 which established SOL did not affect article 43 of law 2190/1920 which had enshrined the '*true and correct view*' concept and prescribed that the objective of financial statements was to present the true financial position and the actual profit or loss of a company. Following this tradition SOL Standard No 101/01 (*Government Gazette*, B/1119/18-12-1979, p. 9666) defined the objective of financial statement audits as being (trans.) "... primarily to attest to the truthful presentation of the financial position and results of operations of the audited company on the prepared financial statements". This clarification was cited in reports which were issued by CPA members of SOL (see Figure A2.6 in the appendix). Further, in these reports it was stated that the audit took place in accordance with the requirements of article 37 of law 2190, other relevant legislation, and the standards of SOL. However, the phrase '*truthful presentation*' (in Greek 'αληθής εμφάνιση') in English translations was stated as '*present fairly*'. This was apparently the result of the American influence on Greek standards (see Mattingly, 1964).

Another change in the objectives of financial statements which impacted on the wording of the auditor's report occurred in 1986 during the harmonisation of Greek company law with

the EEC Fourth Directive. This Directive imposed the British legal requirement of '*a true and fair view*' on all member states. However, as Nobes (1993, p. 45) suggested "... the implementation of the true and fair view requirement shows the ability of countries to impose their own culture on what, to some of them, was an alien concept". Greece exemplifies this situation. The new article 42a of law 2190/1920 prescribed that: (trans.) "... financial statements ... (must) present with absolute clarity '**the real picture**' of the structure of company assets and liabilities (capital structure), of the financial position, and of the results of the company" (emphasis added). The 'real picture' was to be drawn according to rules prescribed in detail by law. The phrase 'the real picture' (in Greek 'την πραγματική εικόνα' - *ten pragmatikie eikona*) purports to render in Greek the British concept of '*a true and fair view*'. From a literal comparison, the difference between the two phrases is self-evident. The most important source of conceptual variation is the use of the definite article 'the' in Greek, while in English the indefinite 'a' is used. Article 42a of law 2190/1920 further stipulated that additional information should be given in the notes to the accounts whenever it was necessary for the financial statements to give 'the real picture'. It also suggested that departure from prescribed rules of presentation could be justified on the basis of 'the real picture' override.

The effect of these changes on the wording of the auditor's report is depicted in the last sentence of the sample auditor's report presented in Figure A2.7. As can be seen there, no explicit reference to 'the real picture' is made, but it is stated that (trans.): "... the financial statements depict the structure of the company's assets and liabilities, the financial position and the results of operations of the company". It should be clarified that in English translations of SOL's audit reports use is invariably made of the British term '*a true and fair view*' as a more meaningful interpretation of the Greek 'the real picture'.

5.5 Mode of Operation: Rules for Quality and Independence

As explained above, Greece had experienced a market failure with regard to the quality of audit services before the establishment of SOL in 1955. This market failure had been

directly related to a lack of skilled and qualified accountants, as well as a lack of independence between practising accountants and their clients. In order to remedy this situation, SOL was established as a corporatist intermediary, a quasi-state organisation with centralised control over audit assignments and official public status. The lack of qualified audit manpower was tackled through; the strict entrance requirements to SOL, the continuing education provided to members, and the long period of practice and other requirements for qualification as a CPA. The minimum period of qualification was 11 years. However, in practice most members have spent 15 or even 20 years before qualifying, as a result of a shortage of CPA posts the number of which was centrally determined. Over the lifetime of SOL, the state was extremely parsimonious in granting CPA posts, notwithstanding pressure exerted by SOL.²⁸ It is believed that the state's policy which was strictly applied until the mid-1980s, was intended as a means of maintaining high standards of performance (interview with a CPA of SOL who had served as member of the Administrative Committee, 21 January 1994).

The state's policy, coupled with the fact that SOL admitted new members only to the extent that new audit jobs were assigned to it, created a form of social closure of the auditing profession. This social closure was, in effect, imposed by the state, but was accepted in certain respects by members of SOL, who enjoyed a sort of regulated monopoly as a result. This situation attracted fierce criticism from the international accounting firms, who wanted to enter the market for statutory audits in Greece. This issue will be addressed in the following chapter.

The second reason for the market failure in corporate auditing prior to the institution of SOL, the lack of auditor independence, was tackled by the law through provisions relating to; the way in which an auditor was appointed, setting and collecting fees, and the incompatibilities of CPA status with the performance of almost any other occupation.

²⁸For vacancies created through retirement, assistant CPAs were promoted to CPAs, as long as they were eligible for promotion, upon a decision by the Supervisory Council.

According to the law, auditing staff were grouped within auditing offices (groups of auditors), and each office was headed by a CPA. Each office operated as a separate audit unit. In each auditing office²⁹ up to three ACPAs and ten Articled A or B class could practice under the supervision of a CPA. The reason for establishing this structure was to encourage CPAs to be personally involved in the practice of audits and in the supervision of the personnel allocated to them. The CPA who headed each auditing office was the person primarily responsible for the quality of audits and the performance of his/her team.

The procedure for the appointment of an auditor by the annual meeting of shareholders of a company was regulated by law. Accordingly, each year a list of six CPAs was sent to companies which were subject to statutory audit. This list was compiled by the AC and approved by the SC. Each company was permitted to choose one of the CPAs on the list. This procedure aimed at strengthening independence by excluding auditor involvement in his/her appointment. In the compilation of the list, care was taken to ensure an even spread of workload among CPAs.³⁰ If there was no change of the auditor for five years initiated by the audited company, a five-year rotation was enacted.

According to the rules, the files of working papers of the outgoing auditor were physically forwarded to his/her successor. Besides assisting the new auditor and minimising start up costs, it was believed that this procedure could have a positive effect on the quality of practice as poor performance by the outgoing auditor was identifiable by the incoming auditor and might lead to a loss of reputation.

Setting and collecting fees was the primary duty of the SC. Any involvement of an auditor in setting and/or collecting fees was strictly prohibited by law. In practice, a time-base charge was applied and was revised annually. SOL had always operated as a non-for-profit organisation. Out of the total fees charged to audited companies, salaries of the

²⁹Article 7, par. 3 of law 3329/1955, as amended by Royal Decree 737/1961.

³⁰In practice, audited companies were requested to prefer the first auditor on the list. The name of each individual CPA appeared on the list sent to as many companies as to allow an even spread of work load.

administrative staff and other operating expenses were paid and the amount remaining was apportioned among the auditing staff on a basis which took account of an auditor's rank, any postgraduate degrees, family allowances, and overtime work. This method of payment for auditor members of SOL, in essence, was akin to salaried income as opposed to professional fees. The level of remuneration for individual auditors was always determined by the SC and SOL members had an income comparable with most senior public servants. The annual remuneration of SOL members is shown in table 2.4.

Table 2.4: Gross Annual Remuneration of SOL Members as of June 1990

Years of Service	Frequency	Gross Annual Remuneration	
		<u>in drachmas</u>	<u>in pounds £*</u>
0-3	209	2,100,000-2,850,000	7,000-9,500
4-8	157	2,850,000-3,600,000	9,500-12,000
9-13	62	3,600,000-4,050,000	12,000-13,500
14-18	59	4,050,000-4,500,000	13,500-15,000
19-23	14	4,500,000-5,100,000	15,000-17,000
24-28	84	5,100,000-5,850,000	17,000-19,500
29-33	6	5,850,000-6,150,000	19,500-20,500

Source: Adapted from Kazas (1991).

* One pound was exchanged for about 300 drachmas as of June 1990.

The thrust behind the regulations concerning audit fees was the perceived need to strengthen auditor independence. Another means of achieving this end was the provision that, in the event of a company delaying or refusing to pay audit fees, the amount due could be collected as public revenue and then transferred to SOL. However, such a procedure had very rarely been instituted in practice (Interview with SOL's Administrative Executive, 20 January 1994).

Auditor independence was also perceived to be strengthened by legislating that auditorship was incompatible with almost any other occupation. Article 13 of law 3329/1955 stipulated that (trans.): "... being an auditor is incompatible with being a) a merchant b) a public servant c) a lawyer d) public notary e) an employee of a private or state enterprise f) a member of the Board of Directors of a joint-stock company g) a book-keeper h) any other

occupation" (reported in Grigoracos, 1989a, p. 38). Auditing was intended to constitute a full time engagement and potentially a job for life. From 1955 to 1990 only 23 members voluntarily resigned their position to pursue a career in industry. Consequently, members of SOL had, on average, a very long experience in auditing as the following table shows.

Table 2.5: *Average Audit Experience of SOL Members as of 1992*

	<u>years</u>
All members included	11.5
Excluding the intake of new members between 1988 and 1990	15.8

Source: SOL files

5.6 Legal Powers and Responsibilities of CPA Members of SOL

Under law 3329/1955 which established SOL, the auditor was given a wide range of rights in performing his/her duties. The provisions of article 12 secured full access to any corporate document, book, or account. It was made a criminal offence for an employee or director of a company to refuse to place at the disposal of a CPA all corporate documents, books, accounts, and reports, to fail to supply necessary information and explanations, or to generally interfere during the conduct of an audit. On the other hand, in order to protect audited companies from the public dissemination of confidential information, article 12 (par. 5) prescribed that auditors should treat all information that came to their attention during the course of an audit in strictest confidence. Breaches of this rule could result in auditors being sued under civil and criminal law (Grigoracos, 1965).

There were two exceptions to the confidentiality rule. First, article 37 of law 2190/1920³¹ postulated that in cases of a violation of the law (company law 2190/1920) or of the Articles of Association, the auditor should report to the Ministry of Commerce. The second exception was enacted in 1985 and referred to tax-evasion. Article 17 of Law 1563/1985 (*Government Gazette*, A/151/1985) prescribed that (trans.): "... a CPA, who during his (sic) audit discovers a breach of tax legislation, should report it immediately to the tax-evasion department of the Ministry of Public Finance". This obligation was additional to

³¹This was enacted though article 21 of Legislative Decree 4237/1962.

mentioning the incident along with estimated amounts of taxes and fines in the auditor's report. Auditors were thus given an additional legal obligation to 'blow the whistle'.

Auditors were liable for any breach of their obligations which stemmed from their actions or omissions. It was provided that auditors were subject to disciplinary, penal, and civil actions for malpractice. In relation to civil liabilities, auditors were liable for payments of damages to a client or to any third party, foreseen or unforeseen, who had sustained a loss due to an auditor's actions or omissions. Auditors' civil liability was unlimited. However, auditors could defend themselves by showing that, in performing their duties, they had adhered to the auditing standards and guidelines available to them.

In relation to their legal status, auditors of SOL were considered to be neither salaried employees nor public servants. Rather, they were 'liberal professionals' and were taxed as such. In relation to the legal status of SOL, although the law did not define it, jurisprudence from the Council of State suggested that (trans.) "... SOL is a compulsory association of liberal professionals" (interview with CPA Grigoracos, 14 January 1994). Although auditors of SOL were considered to be 'liberal professionals', they were always required to act in the 'public interest'. Article 12 clarified that (trans.): "... Certified Public Accountants are not public servants but they perform a public office ... they should always act in the public interest".³² The promotion of the public interest was the reason for the power entrusted and the legal protection provided to auditors of SOL (Council of State, Decision 330/1992).

It seems that the protection of the 'public interest', impartiality, and attendance to the law was the prevailing ideology among the SOL membership. Grigoracos, a distinguished CPA, crystallised a view which was held universally by members of SOL concerning the role of external auditors (trans.):

"... The profession of external auditor (certified public accountant) should not be compared to the freelance profession of a lawyer, a doctor etc., but rather

³²When it is said in Greece that someone performs a 'public office' it is meant that the nature of his profession is such that society in general takes a lot of interest in it. Further, he should always act in the 'public interest' and be impartial with respect to any private interest.

with that of a judge. The certified public accountant is not a counsel for the defence of a company; he does not protect only the interests of a company (of its shareholders) as a lawyer defends the interests of his client and according to the law invokes only the facts and particulars in favour of him, while suppressing those that seem to be against him. The Certified Public Accountant must act precisely as a judge. The conclusion of an audit must be objective and impartial in all respects, because it is of interest to the whole society" (1989a, p. 30).

SOL was intended to be a watchdog over audited companies, and as a rule, its members eagerly assumed this a role. It was a deeply rooted belief that as long as CPA members of SOL acted as real watchdogs the status of the profession was strengthened, and the chances of government interference to the detriment of SOL were reduced. In this vein, a long form audit report was adopted which was published with the financial statements in the press.³³ It seems that CPA members of SOL had been strict in reporting every significant finding of their audit in the published report. To illustrate this practice summary data of auditors' remarks for financial years 1990 and 1991 are presented in table 2.6 (see next page).

The strict attitude towards auditing adopted by most CPA members of SOL resulted in some tacit conflicts between auditors and companies. This auditor-client relationship in some cases was akin to that between a police force and a policed group. Whistle-blowing in relation to breaches of tax-legislation epitomises this relationship. Over the years a legalistic mentality was created among members of SOL. According to this mentality a CPA was the guardian of law. Further, it seems that whistle blowing was also seen as a chance for the profession to forge a strong relationship with the state.

The power and protection given to the auditor by law, coupled with the relatively low remuneration for all ranks of the profession is believed to have led to a civil-servant type of mentality among some members. This was most apparent during the great expansion of SOL during the 1980s (interviews with three CPAs of SOL, 10, 14, and 19 January 1994). Nonetheless, the SC attempted to tackle this problem since 1987, by strengthening and broadening the responsibilities of the Technical Office. Due to the post-1990 changes in the

³³The publication of both the financial statements and the auditor's report was enacted through article 25 of law 4237/1962 (*Government Gazette*, B/123/9-08-1962).

legal framework of auditing (which are examined in later chapters), these measures were never fully implemented.

Table 2.6: *Summary Data of SOL Auditors' Remarks for Years 1990 and 1991*

	description of auditor's remarks	number of remarks	
		1990	1991
1	Adverse opinion	10	10
2	The results of the year are not verified or a reservation is made about their amount	—	5
3	Due to accumulated losses the company may be liquidated by Ministerial Decision, according to article 48 of law 2190/1920 (going concern)	136	165
4	Due to accumulated losses the company's general assembly has to decide either to liquidate it or take some other measure	72	199
5	Loans and credits, prohibited by law 2190/1920, have been granted to members of the Board of Directors, managers, and executive directors	37	44
6	Subsidiary businesses have invested part of their funds in shares of the parent company (article 17 of law 2190)	2	5
7	The revaluation of assets according to MD. 2665/1988 was wrongly estimated and as a result the surplus transferred to the capital issued is not correct	62	14
8	The internal control system is unsatisfactory	84	66
9	Depreciation is not provided at the appropriate level as required by law	368	296
10	Appropriate provisions for bad debts are not provided	868	887
11	Securities and inventories are valued at a price higher than that determined by law and the difference was transferred to the annual results	438	470
12	Assets and liabilities in foreign currency were not valued at the year end	60	82
13	The value of certain balance-sheet items cannot be verified	198	201
14	The amount of cash as of the year end is not "verified" or a cash short is found	13	45
15	Assets of the firm do not appear on the books or sold assets are not recorded	—	7
16	Liabilities to pension funds have not been fully recorded	83	96
17	Taxes and tax fines have not been recorded	299	328
18	Liabilities have not been recorded or provisions for contingent debts have not been made	39	194
19	Certain liabilities in the balance-sheet cannot be "verified"	—	24
20	A cost account is not properly kept	99	109
21	Expenses have been recorded as assets	296	322
22	Accrued expenses have not been recorded	174	193
23	The accounting period principle has not been followed (matching revenues with relevant expenses)	15	133
24	Exchange differences from valuation of assets and liabilities in foreign currency are not treated appropriately with an effect on the year results	49	59
25	Expenses are recorded with no supporting documents	—	18
26	The annual results are increased with fictitious or unreal revenues	—	21
27	The inventory valuation method has been changed with respect to the previous year, with no appropriate adjustments	201	408
28	Books and documents provided by law have not been properly kept	46	18
29	Miss-classification of various items has occurred in the financial statements	90	125
30	Memo accounts have not been properly presented	9	22
31	The provision for legal reserve for the year was not correctly estimated	5	7
32	No provision for staff retirement benefits and similar obligations has been made	883	953
33	Positive and negative items have been offset	3	16
34	The notes to the accounts or the directors' report are not complete	2	4
35	The appropriation account has not been prepared in accordance with the law	—	8
36	Confirmation from the company's solicitors have not been received	—	10
37	Various remarks on insurance companies	96	41
38	Various other remarks	13	26
	TOTAL OF AUDITORS REMARKS	4,750	5,637
	TOTAL OF AUDITED COMPANIES	1,863	1,817

Source: SOL files

6. Conclusion

This chapter has presented an analysis of the emergence of the Greek auditing profession within its socio-economic and political context. At the same time, it has provided background information which is necessary for a discussion of the development of the profession and the conflict between SOL and SELE (to be examined in the following chapters).

The political system of Greece, described as a version of state corporatism tempered by party competition and parliamentary democracy, is the essential background against which the establishment and development of the Greek auditing profession took place. The history of accounting regulation in Greece was described and two periods of development were identified, each associated with particular economic and socio-political circumstances. Firstly, the so-called *laissez-faire* period 1821-1918 which was associated with a period of limited capitalist development, a general lack of state intervention, and oligarchic politics. Secondly, a period of increasing state intervention from 1918 to date which was related to considerable industrial and economic development, the democratisation of the political system, and a move towards direct state intervention in the management of the national economy.

The origins of corporate external auditing were traced to legislative initiatives of the interventionist era in the 1920s and 1930s which, however, failed to enforce effective corporate audits. The creation of the Greek auditing profession via the establishment of SOL in 1955 was explained as a consequence of the state's attempts to push economic development following a ten-year period of war. It has been shown that the creation of SOL was also necessitated and approved by international agencies which attempted to secure the proper use and repayment of aid and loans (mainly the Marshall Plan), which were granted to Greece after a decade of war.

The chapter has also outlined a profile of SOL: how SOL was established as a closed profession under state patronage; its organisational structure; standards of practice; and particular mode of operation were clarified in some detail. The analysis showed that SOL had several of the traits of a corporatist intermediary or governing institution. As said, SOL as a profession was under state patronage. However, SOL was not part of the state proper and enjoyed an independent legal status and personality. Nevertheless, it was subjected to state supervision and control in relation to leadership selection, interest articulation, and policy formulation. The majority of members of SOL's Supervisory Council were appointed by the state and were senior public officials. All important issues in the running of SOL (fee determination, admission and promotion of members, standards of practice, auditors' remuneration etc.) were determined by the Supervisory Council. In return, SOL enjoyed a legal monopoly of practice and was thus effectively protected from competition. The single most important characteristic of SOL's operation was the protection of the 'public interest' which legislation attempted to promote. This public service orientation of SOL was not only dictated by law, but was also nurtured by the ideology which SOL promoted among its members.

As will be shown in the following chapter, this public service orientation and its close relationship with wider state agencies was the basic means used by SOL to defend and expand its legally sanctioned monopoly in the market for statutory audits from the early years following its inception in 1955 to 1990.

APPENDIX

Figure A2.1: Sample Auditor's Report Commonly Used before the Establishment of SOL

AUDITOR'S REPORT

To the shareholders of "XYZ" company

Gentlemen,

We have the honour to inform you that from the audit of the balance sheet of your company for the year 1962, which we have carried out in accordance with your assignment to us, we have found complete accuracy of the entries and agreement of the ledger balances with the balance sheet for the year 1962 which is submitted to you for approval.

Our examination has revealed absolute order in the books of the company, that the loan obligations of the company have been properly serviced, that the size of the expenditures were reasonable and there has been a considerable progress in its business activities in general during the period under review, all of which go to prove faultless and efficient administration of your company.

We, therefore, recommend that you approve the submitted balance sheet.

Source: Brugge (1963, p. 599).

Figure A2.6: Standard Auditor's Report Initially Adopted by SOL

AUDITOR'S REPORT

To the shareholders of "XYZ" company

In my opinion, based upon my examination, the accompanying financial statements (with their notes), present fairly the financial position of "XYZ" company at 31st December, 19XX, and the results of its operations for the year then ended in conformity with legal requirements and accepted accounting principles applied on a basis consistent with that of the previous year.

My examination was made in accordance of the requirements of Article 37 of the Companies' Act of Greece (No. 2190) and also in conformity with the standards of auditing accepted by the Institute of Certified Public Accountants of Greece and accordingly included such tests of accounting records and other auditing procedures as I considered to be necessary in the circumstances. I obtained all the information and explanations (including statements of all branch operations) which I needed for the purpose of my audit.

I have found that the books of account (and production cost books) as required by existing laws have been kept by your Company, and that the accompanying financial statements are in agreements therewith.

Source: Mattingly (1964, p. 1001).

Figure A2.7: Standard Auditor's Report of SOL after the Fourth EEC Directive

AUDITOR'S REPORT

To the shareholders of "XYZ" company

I have audited the above financial statements of "XYZ" company for the year ended DECEMBER 31, 19XX and the related Notes to the Accounts. My examination, within the scope of which I also obtained a full accounting report of the Company's branch operations, was made in accordance with the requirements of article 37 of the Companies' Act of Greece (Law 2190/20) and also in conformity with the standards of auditing accepted by the Institute of Certified Public Accountants of Greece. Accordingly my examination included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances. I have examined the books of account and records kept by your Company and I obtained all the information and explanations which I needed for the purpose of my audit. The company has correctly applied the General Accounting Plan. A proper production cost account has been kept. I have verified that the Directors' report is consistent with the related Financial Statements. The Notes on the Accounts include the information required by the Companies' Act (art. 43a). It is noted that:

... (auditor's remarks cited, if any) ...

In my opinion, taking into consideration the foregoing remarks, the above Financial Statements which are in agreement with the books and records of the company, together with the Notes to the Accounts, depict the structure of company assets and liabilities, the financial position of the company as of December 31, 19XX and the results of operations for the year then ended. The above financial statements are in conformity with the legal requirements and accepted accounting principles applied on a basis consistent with that of the preceding year.

Figure A2.8: A Note on the Legal System of Greece

Greece is a parliamentary democracy with a written constitution, and her legal system has been influenced by two legal traditions; the French and the German. The French influence has been most apparent in the development of commercial law and has its origins in the introduction of the French commercial code into the modern Greek legal system in 1822. The Germanic influence is most evident in the Greek civil, penal, and procedural laws. Indeed, the Greek Civil Code is based on its German counterpart which in turn draws upon the Byzantine-Roman code.

Legislative power reposes in the National Parliament and, as a general principle, each new piece of legislation must be compatible with the basic provisions of the Constitution. Another form of legislation in Greece is through Presidential Decrees. These decrees are issued under the authority of statutes. They are prepared by the relevant Ministry and signed by the President of the Republic. The constitutional principle underlying these Presidential Decrees requires that they are in conformity with the letter and spirit of the law, according to which they are issued. A final means of enacting legislation is through Ministerial Decisions. Such decisions, however, have to be subsequently ratified by a separate law and can only relate to minor issues. All three forms of legislation require publication in the *Government Gazette*.

The constitutionality of legislation passed by any of the above stated means can be questioned at the Council of State. In practice, this applies mainly to non-parliamentary Presidential Decrees and Ministerial Decisions, as the Council of State has only very rarely in the past declared a law unconstitutional. The application of the laws, including interpretation and construction, as in other countries with a codified legal system, is left to the courts. The principle of the precedent is not applied as in the Anglo-American system. Judges are not formally bound by the existent jurisprudence pertinent to a case. However, decisions of the Supreme Courts in each jurisdiction (civil, penal, and administrative) carry special weight and in practice guide judges of lower courts.

CHAPTER THREE

THE STRUGGLE FOR LIBERALISATION 1955 - 1990

1. Introduction

Attempts at liberalising the auditing profession in Greece date from the establishment of SOL in 1955 and continued to 1990. This period coincided with a time of increased state involvement in the management of the national economy. The intra-professional struggle intensified during the 1970s, and particularly during the 1980s. Two main parties participated in the conflict. While SOL attempted to protect the existing organisation of the profession, practising accountants and auditors, most of them in international accounting firms, attempted to enter the market of statutory audit services. Representative associations of the business community also became involved in the affairs of the auditing profession, initially in an attempt to resist the expansion of statutory auditing.

All four theoretical themes of the critical perspective (see chapter one) are employed to inform the analysis in this chapter. Historical analysis will identify the key events and the main actors in the conflict during the period 1955 to 1990. As will be shown, during this period SOL took advantage of particular socio-economic conditions and the priorities of state policy to defend and advance its position by entering into a reciprocal corporatist relationship with the state. Thus, the analysis exposes the importance of structural factors and the key role of the state for the development of the Greek auditing profession. Finally, the analysis depicts the conflicting professional groups as primarily political bodies which sought to promote and advance the material interests of their members.

This chapter addresses four main issues. First, the profiles of the protagonists in the struggle for liberalisation are presented. Second, the defence strategy which SOL followed during the period 1955-1990 and its relationship with the state, the business community, and other accounting groups is explained. Third, the attempts to change the organisation of the profession during the 1960s and 1970s are described. Finally, the conflict during the 1980s is analysed with particular reference to the harmonisation of the Greek company law with the EEC Directives.

2. The Protagonists in the Struggle for Change

2.1 SOL and Allies of SOL (OEE and POL)

In the intra-professional conflict, the Administrative Committee and the President of SOL played a leading role. The Supervisory Council of SOL was not formally involved although, it is believed that, unofficially, some of its members have offered their good offices. Furthermore, individual members of SOL with connections to eminent figures in the political, economic, and social elite or in the media also played a significant role.

In addition, the 'Trade Union of the Members of SOL' played a vital, and arguably the most important role in defending the interests of SOL throughout the struggle. All auditors of SOL, irrespective of their rank, were entitled to participate in the trade union. However, some CPA members of SOL believed that the union was driven by the lower ranks of SOL who constituted the majority of the membership. In addition, it was believed that SOL's trade union was captured by socialist or leftist political parties. As a result, a group of CPA members of SOL (most of whom were affiliated with the conservative party New Democracy), established their own trade union within SOL in 1988. This union was known as ESEOL¹ and had some sixty members in 1991.

In the struggle against liberalisation, SOL could draw on the support of two other national associations interested in auditing issues, OEE² (trans.: Economic Chamber of Greece) and POL³ (trans.: Pan-Hellenic Federation of Accountants). While they were broadly allies of SOL, both OEE and POL also had their own ideas concerning the way in which the auditing profession should be organised.

¹ESEOL comes from the Greek 'Επαγγελματικός Σύλλογος Ελλήνων Ορκωτών Λογιστών' - 'Epaggelmatikos Syllogos Ellenon Orcoton Logiston', trans.: 'Trade Union of Greek Certified Public Accountants'.

²The acronym OEE come from the Greek 'Οικονομικό Επιμελητήριο Ελλάδος' — 'Economico Epimeliterio Ellados', trans.: 'Economic Chamber of Greece'.

³POL are the acronym of the Greek 'Πανελλήνια Ομοσπονδία Λογιστών' — 'Panellenia Omospondia Logiston', trans.: 'Pan-Hellenic Federation of Accountants'.

OEE differed from the rest accounting groups presented here in that it was established in 1984 under statute (law 1479/1984), and was thus given a formal public status. OEE has operated as a legal entity within the public sector and is the major compulsory association of graduates in the general field of economics. All statutory auditors in Greece (either prior to or post liberalisation) are members of OEE. OEE comprises a formally constituted advisor to the Government on issues relating to general economic policy. However, the extent to which this function has been fulfilled in practice is questionable. Members of OEE currently exceed thirty thousands and are engaged in a wide range of posts. They may be employed in the public sector, public utilities, banks, private enterprises, or they may be self-employed professionals (accountants, business consultants etc.).

Shortly after its establishment in 1984, OEE set up a committee to examine corporate auditing in Greece. The thrust behind this initiative was the desire of the leadership of OEE to play a more active role in the affairs of Greek auditing (interview with a senior member of OEE, 21 January 1994). The committee established by OEE offered some proposals relating to the function of statutory auditing in Greece (OEE, 1985). These proposals are summarised as follows:

- 1) The 'social' function perspective of statutory auditing should be safeguarded. Auditing should aim at protecting the interests of a wide range of market participants, such as businessmen, shareholders, employees, third parties entering into transactions with the company, and generally anyone with a legitimate interest in the company;
- 2) Statutory auditors should be university graduates and members of OEE, be qualified, and their independence secured;
- 3) All statutory auditors should be members of one independent body supervised by the state through a supervisory council with wider representation, in which OEE would take part. This supervisory council, *inter alia*, should determine audit fees and auditors' remuneration, and check the quality of audit practice.

It is evident that the structure and organisation of the auditing profession which was proposed by OEE in 1985 almost coincided with the way in which SOL was established and operated. However, it was indicated that OEE sought a more active role in auditing matters.

Malissos, a member of the Administrative Board of OEE, explicitly suggested that OEE should be the competent authority to regulate the qualification of auditors (*Economica Chronica*, December 1989, pp. 26-27). Konidaris, another member of OEE, held a more radical view which, however, was not formally accepted by OEE. He proposed the abolition of SOL, SELE, and EPEL and the establishment of a body of auditors under the supervision of OEE (*Economica Chronica*, December 1989, pp. 27-28). According to this proposal audited companies would have to pay a certain amount annually to the state to cover audit expenses. The money would then be transferred to OEE, which would appoint and remunerate auditors.

The second ally of SOL, POL, was established in 1956 as the accountants' trade union. This organisation which had approximately 6,000 members in 1994 encompasses both freelance professionals and those employed in industry. POL admits as a member anyone who practices as an accountant, irrespective of whether he/she has a university degree or has only undergone informal vocational training. SOL members were invited to join POL but in practice very few, if any, members of SOL joined POL.

The views and proposals advanced by POL regarding the organisation of the auditing profession were presented at the twelfth annual congress of POL, held in May 1985. POL's proposals effectively advocated the organisation the auditing profession in a manner similar to SOL. However, POL differed from SOL in supporting the entrance of non-graduates to the profession. This probably reflected the fact that many of its members lacked university qualifications. The views and proposals of POL as advanced in 1985 are summarised below.

- 1) POL favoured the 'social' audit of big companies. Such an audit would shed light on every aspect of business activity and the resulting auditor's report should be given wide publicity;
- 2) Auditing should not be commercialised, big companies should be audited by an independent institute run democratically and supervised by the state. Non-university degree holders should be allowed to become members of this institute;
- 3) An effective audit for small companies should also be regulated on a similar basis, with wider participation of non-graduates;

- 4) The quality of practice of private audit firms was currently at an acceptable level, but their audits only served private interests.

2.2 SOL's Rivals: EPEL and SELE

The statute which established SOL (law 3329/1955) granted to it a monopoly in the market for statutory audits. However, it has possibly become clear that the law did not prohibit the establishment of other associations of professionals in the general accounting field. In fact, a number of such associations were established with the objective to challenge SOL's monopoly.

One such organisation was EPEL,⁴ The Institute of Incorporated Public Accountants. EPEL was established in April 1968, following an initiative taken by Mr Th. Staikos, a former member of SOL who had been expelled⁵ by its Supervisory Council. According to article three of its by-laws (EPEL, 1968, p. 3), the main purpose of EPEL was: "... to develop accounting and auditing practices in Greece by establishing and securing high ethical, scientific, and professional standards within the public accountancy profession". In practical terms, however, the main objective which EPEL pursued has been the liberalisation of the auditing profession in Greece.

The Articles of Association of EPEL stipulated that one could become a member provided that he/she had a relevant university degree, three year's of experience in accounting and/or auditing, and passed exams organised by EPEL. However, it appears that EPEL did not operate according to the provisions in its by-laws. According to a member of its Executive Committee (interview, 10 January 1994), exams were possibly conducted during the early

⁴EPEL comes from the Greek 'Έλληνες Πραγματογνώμονες, Ελεγκτές—Λογιστές' — 'Ellenes Pragmatognomones, Elengtes-Logistes', trans.: 'Greek Experts, Auditors, and Accountants. In English, however, the title 'The Institute of Incorporated Public Accountants in Greece' was adopted.

⁵Staikos was a member of SOL and went to Germany for postgraduate studies, on a scholarship granted by SOL. When he returned to Greece, after finishing his Doctorate at the University of Cologne, he joined SOL in 1961. However, shortly after his return, he clashed with the Supervisory Council, ostensibly for the rewards he demanded for his Doctorate (interview with a CPA of SOL, 23 January 1994). As a result, he was finally expelled from SOL and he set up his "Greek-German" audit firm. After his expulsion Staikos launched a hard-fought campaign against SOL which lasted to his death in 1988.

years of EPEL but not subsequently. Since 1980 EPEL ceased the admission of new members. EPEL never published data about its membership but according to some estimates it stood at two hundred in 1991 (ibid.). It is considered that the main criteria of admission to EPEL were the holding of a university degree and the gaining of considerable practical experience: "... members were mature accountants" who were mainly employed in industry as internal auditors, controllers, financial executives, or freelance professionals (ibid.).

In summary, it appears that EPEL was one of the "rubber-stamp" unions which abounded in post war Greece, when the representation of organised functional interests expanded (see Mouzelis, 1986 chapter two). EPEL was personally used by Staikos as a medium to lobby the government for liberalisation. This conclusion is further supported by the fact that, after Staikos's death in 1988, EPEL failed to have any significant influence on the actual liberalisation of the auditing profession in the early 1990s.

The second, and most important, rival group to SOL was SELE, the Association of Certified Accountants - Auditors. As has been mentioned, SELE was established in 1979 by practising accountants and auditors in international accounting firms, mainly the then 'big eight'. Most of the members of SELE had a relevant university degree, and some were holders of foreign professional qualifications (SELE, 1980, p. G15). According to its founders, SELE was intended to have a structure and operation similar to the Institute of Chartered Accountants of England and Wales (SELE, 1982, p. 19). Accordingly, there were two kinds of members: full or regular members, and trainee members (during a three year apprenticeship). SELE soon established its own professional examinations from which founding members were exempted (article four of SELE's by-laws). The requirements for qualification (full membership) were (SELE, 1982, p. 17):

- 1) a university degree (in almost any subject);
- 2) three years of practical experience in an audit firm or in industry;
- 3) successful completion of professional exams;

4) an experienced member of SELE be satisfied that the candidate be suitable in terms of his professional ability and moral standards.⁶

SELE emphasised in its by-laws that it would adopt an 'open door' policy toward new members. This 'open door' policy meant that SELE would not impose any restriction (besides the institution of exams and the requirement for a university degree), and its membership could thus grow unlimited. This was in contrast to SOL, which admitted members according to the demand for practitioners. It was also in contrast to the 'rubber stamp' character of EPEL.

Formally, the broad purposes of SELE were, *inter alia*, to advance and develop the accounting and auditing profession, to promote the professional independence of its members, to establish standards of practice and a code of ethics, and to promote the interests of its members (SELE, 1980, p. A2). Nevertheless, the principal objective of SELE, and arguably the *raison d'être* for its establishment, was the liberalisation of the Greek auditing profession. SELE was in effect created by the international accounting firms operating in Greece in order to be used as a lobby group for the liberalisation of the auditing profession.

SELE has not published recent detailed data about its membership. However, according to information given to the researcher orally by two members of its Executive Committee, it appears that in the early 1990s SELE had about four hundred and fifty members (interviews, 28 and 31 January 1994). Out of this number two hundred and fifty were full members and the rest were trainee members. Further, according to the same sources, of the total membership only forty percent were employed in accounting firms at various levels. The remaining 60% occupied higher positions in industry. It was also suggested in the above interviews that the movement of personnel into industry was a purposeful policy of SELE

⁶The researcher attempted to clarify the purpose and the practical meaning of this provision in an interview with a member of the executive committee of SELE (28 January 1994). The interviewee did not explain the meaning of the term but he emphatically stressed that this provision had no practical significance.

following the example of Institute of Chartered Accountants in England and Wales (ICAEW) and other Western and North-American institutes of public accountants.

Members of SELE operated Greek branches of international accountancy firms which had become established in Greece since the mid-1960s, following the considerable foreign investment inflows to the Greek mainland of this period. Prior to the liberalisation of the Greek auditing profession in 1992, the Greek branches of international accounting firms engaged in a variety of activities such as bookkeeping, auditing, tax, and management consultancy. They also did some audits of Greek subsidiaries of foreign enterprises, but were excluded from statutory audits which were conducted exclusively by SOL under Greek statutes.⁷

Practising accountants employed by private auditing firms in Greece also established their own trade union, SEPEE,⁸ in 1982 (*Accountant and Enterprise*, 1982, p. 107).

2.3 The Wider Business Community

The business community in Greece became involved in the struggle for change of the auditing profession through its representative associations. Generally speaking, the business community has a two-tier system of representation comprising voluntary and compulsory institutions (see Mavrogordatos, 1988a). In the voluntary system, representation at the national level is functionally organised across sectors of the economy (shipping, industry, commerce, banks etc.). The level of organisation extends to specific industries and geographical areas, and there is very often overlapping representation. Over the years, one organisation, SEV⁹, has come to dominate employers' representation at the national level. Another voluntary employers' association is the '*Association of Joint-Stock and Limited*

⁷The audits performed by SELE were optional audits performed for reporting to investors abroad, despite that these subsidiaries (in most cases) were statutorily audited by SOL.

⁸ In English SEPEE means 'Association of Scientific Personnel of Audit Firms'. The word scientific denotes that members of SEPEE held a university degree.

⁹SEV stands for the Greek 'Σύλλογος Ελληνικών Βιομηχανιών' - 'Syllogos Ellenicon Viomichanion', trans. the 'Confederation of Greek Industries'.

Companies' which represents all joint-stock companies (AE) and companies of limited liability (EPE).

In the compulsory system, representation is organised in chambers of commerce at the prefecture (county) level. The most important of these chambers is the '*Athens Chamber of Commerce and Industry*'. A peak association of chambers in the form of the '*Central Union of Chambers*' also exists at the national level.

The groups representing the business community (and in particular the voluntary associations) have generally opposed the expansion of statutory audits. Thus, the positions adopted by SOL and the business community concerning auditing were essentially antithetical. As has been explained, SOL attempted to lobby the government to expand statutory audits so as to encompass all companies of an appreciable size. Additionally, SOL had appeared willing to assume a 'police role' against audited companies in an attempt to gain legitimacy from the state.

Much of the antipathy between the business community and SOL dates to 1960, when listed companies were subjected to statutory audits by legislation. This decision was criticised by the business community¹⁰ as premature, and it was contested that audits would disturb the function of companies and impose intolerable burdens on them (*Naftemporikie*, 17 and 18 December 1959). A later example of the negative attitude of the business community regarding the expansion of statutory audits occurred in 1989. It appears that the incumbent government was pressurised by the business community to exempt a number of companies from statutory audits (*Economica Chronica*, November 1989, p. 22). The companies concerned had been subjected to statutory audit by virtue of Ministerial Decision 2098/1983. However, after some anti-lobbying by SOL, the government introduced only a very

¹⁰As a result, some 40 companies, almost half of the total number, withdrew their shares from the Athens Stock Exchange (Mattingly, 1964: 1002). Mattingly suggested that this withdrawal might not necessarily mean that these companies had something to hide. Many were family concerns and had an aversion to paying charges for independent audit (ibid.).

moderate change (Ministerial Decision K2/7229/1989), which had a limited effect on the number of companies subjected to statutory audits by SOL.

As it became clear that statutory audits were prescribed by the EEC Directives, the business community appears to have become more excited into support for the liberalisation of the auditing profession, in the hope of getting rid of the perceived stringent audits of SOL. This will be explored further in the following chapter. The support of the business community for the liberalisation brought an element of congruence of interests between the business community on the one side, and SELE and EPEL on the other. In essence these parties entered into a *de facto* alliance since the 1980s, and it is widely believed that they have acted in concert in most cases since then (this point will be elaborated in the following chapter). It is worth noting that SEV had accepted SELE as its member since the mid-1980s.

SOL has made some hesitant attempts to promote relations with the business community over the years, but with rather poor results. Protopsaltis, a distinguished CPA of SOL, has suggested that one reason for this was SOL's code of professional ethics which prohibited any 'close' relations between auditors and audited companies (interview, 4 February 1994). SOL has tried to advance relations with the business community by various activities such as organising (free of charge) lectures and seminars on various issues of interest to the business community, and by disseminating international accounting standards to audited companies.

3. Defensive Strategies of SOL

As suggested earlier, throughout its lifetime SOL existed under the perceived threat of a detrimental change towards liberalisation. Particularly from the 1970s onwards, SOL has been on the defensive. Its principal purpose has been to protect the status quo of the organisation of the auditing profession, and thus maintain and extend its professional

monopoly of statutory audits. A compromise with its main professional rivals SELE and EPEL was not contemplated, at least before 1990.

SOL adopted a strategy with twin objectives. The first, and foremost, was the forging of a strong and lasting reciprocal relationship with the state. A secondary and supplementary objective was to forge relationships with other groups with an interest in auditing, such as POL and OEE. With respect to the business community and audited companies, SOL did not intend to maintain an unfriendly or hostile stance. However, the differences in strategic interests between SOL and the business community resulted in their appearance as belligerent camps.

3.1 SOL and the State

SOL used a number of means to promote its relationship with the state. First, SOL offered the state a series of very important services without pecuniary reward. Such services included: participation in the committee which prepared the General Accounting Plan;¹¹ participation in various committees drawing up bills; the codification of company law in 1987 and 1988; participation in the working parties which prepared the harmonisation of Greek company legislation with the EEC Directives; and participation in the permanent committee instituted by the 'Code of Corporate Books and Documents'.¹²

Second, SOL effectively acted as a machine for the application of state policies. As a rule, audit manuals and audit programmes of SOL invariably suggested attention to compliance testing during an audit to ensure that audited companies properly followed all relevant legislation. One example relates to the application of labour legislation by audited companies (provisions for minimum work pay, annual pay leave, or various compulsory allowances). A second example refers to price controls according to the Price Control

¹¹The contribution of SOL in the preparation and implementation of the General Accounting Plan is acknowledged by Papas (1993: 85). SOL had also proposed to undertake of its own the compilation of the GAP since 1965 (Ministry of National Economy *et al*, 1987: 50).

¹²This committee examines issues arising from the application of the provisions of the 'Code Corporate Books and Documents'.

Code.¹³ Another relatively recent example whereby SOL, willingly or not, played a part in the application of state policy occurred in 1985 when the government implemented a package of austerity measures. The relevant law imposed control on pay through the indexation of any increases in wages and salaries. Again, audit guidelines of SOL suggested that members conduct a careful examination of payroll increases to ensure their being in accordance with the law.

Third, SOL has offered to act as a social watchdog of companies for the state. There are many cases of a mutually recognised relation between the state and SOL with respect to the policing of companies. For example, in a letter dated 13 December 1978 (cited by Staikos and Tsekeris, 1980, p. 14), SOL asked Members of Parliament and Ministers to take measures towards extending statutory audits on the grounds of protecting the 'public interest'. A few months later, law 876/1979 explicitly recognised SOL as a vehicle for overseeing the operation of all large companies which were deemed to have an important effect on the national economy. Further, article 20 of this law provided that, by virtue of a ministerial decision, statutory audits by SOL could be extended to encompass certain categories of companies. Partial implementation of article 20 of the aforementioned law took place in 1983 through Ministerial Decision 2098/1983, which brought under statutory audit by SOL a large number of companies.

SOL has also repeatedly offered assistance to the state in relation to the chronically acute problem of tax-evasion. For example, on 8 December 1981 SOL sent a letter to a new Minister of Public Finance. In this letter some proposals were made for the utilisation of the findings of SOL's audits by tax inspectors. It was suggested that companies should submit, on an annual basis, some forms of data to the Tax-Office and that statutory auditors should have to verify them.

¹³This 'Price Control Code' was introduced during the second World War and remained in use on several goods for decades. However, by 1990 price control in almost all goods had been effectively abolished.

Another incidence in which SOL offered assistance to the state occurred in 1983, when SELE and EPEL succeeded in lobbying the Deputy Minister of Commerce (Mr A. Kazazis). In a letter dated 2 March 1984 addressed to Mr Kazazis, SOL proposed closer co-operation between itself and the state. Specifically, it was proposed to the government to legislate that auditors should have to 'blow the whistle' whenever they found any breach of the law.¹⁴ Further, SOL repeated its proposal made in 1981 for a closer co-operation between itself and the Tax-Office. It seems that these suggestions by SOL were partly implemented two years later when law 1563/1985 was passed. Article 17 of the aforementioned law made it a legal obligation for auditors to 'blow the whistle' on audited companies if a breach of tax legislation was discovered in the course of an audit.¹⁵ Anecdotal evidence suggests that 'whistle blowing' was practised several times¹⁶ by CPA members of SOL prior to the liberalisation of the profession in 1992 (interview with a competent public servant at the Ministry of Public Finance, 28 September 1995).

The last proposal by SOL for a closer co-operation with the state took place in January 1990, under the 'unity government' of Professor X. Zolotas. During this time Greece was in a state of political turmoil due to the outbreak of the 'Koskotas scandal'.¹⁷ In a letter to the government dated 26 December 1990, the Trade Union of Members of SOL proposed, once again, a closer co-operation between SOL and the state which aimed at extending and making more effective statutory audits. However, two months later (in April 1990) Greece

¹⁴Although such a provision existed in article 36 of law 2190 some clarification seemed to be necessary, given that auditors had an obligation of strict confidence during their audits according to article 12 of law 3329/1955.

¹⁵In fact, Article 17 was induced by a leading CPA of SOL who had connections with incumbent Minister of Public Finance. It seems that the majority of SOL CPAs disagreed with the new legislation but they had to apply it (interview with one leading CPA of SOL, 23 January 1994).

¹⁶Unfortunately, these cases are treated in strict confidence and no detailed data are available to a researcher. According to the personal testimony of a CPA of SOL (interview, 22 January 1994) he blew the whistle four times from 1987 to 1991.

¹⁷G. Koskotas was born in Greece but when he was very young he went to the USA where he was educated. He returned Greece in his late twenties, and he was initially employed by the Bank of Crete as an accountant. By massive misappropriation of the bank's own funds he managed to take over the bank. He also bought 'Olympiakos', presumably the most popular foot-ball club in Greece, two newspapers, one weekly magazine and a radio station. A number of politicians and government officials were associated with the scandal which was named after him. In November 1994 Koskotas was sentenced to 25 years imprisonment.

held general elections and, as a result, this proposal fell from the political agenda. The elections were won by the conservative party of New Democracy which was to liberalise the auditing profession on the basis of a New Right agenda.

3.2 SOL and Other Professional Associations

As explained earlier, at least until 1990, SOL did not adopt a compromise stance in relation to SELE and EPEL. However, SOL attempted to forge allegiances with other professional associations with an interest in auditing. Such allegiances were almost exclusively promoted on behalf of SOL by the Trade Union of the Members of SOL. The relationships were usually on a mutual interest or a *quid pro quo* basis. For example, the relationship between SOL and POL was one of mutual interest. While POL always held views with regard to the auditing profession which accorded with the interests of SOL, SOL attempted to advance POL's interests by suggesting to the government in January 1990 that the audit of small companies (using the criteria of the Fourth EEC Directive) should be upgraded and performed preferably by members of POL.

The relationship between SOL and OEE was also largely one of mutual support, even though OEE appeared increasingly determined to interfere in auditing matters. At the root of SOL-OEE co-operation was the fact that all members of SOL were members of OEE. It was often suggested that one of the weaknesses of SOL, as an interest group, was its relative small size. To compensate for this, SOL sought to enter into an informal alliance with OEE.

4. Attempts at Liberalisation during the 1960s and 1970s

Having outlined the protagonists and the structure of institutional allegiances, the early attempts to liberalise the auditing profession are now examined. As explained earlier, SOL was established in 1955 as a quasi-state, though independent and autonomous body. Its initial organisational structure was intended to be transitory. However, until 1990 the state did not intervene to liberalise the profession or to fundamentally alter its constitution. This

was partly as a result of a perceived success of SOL. It has also been suggested that the objective of liberalising the profession was not unanimously espoused by the statesmen and other agencies who were involved in the establishment of SOL (Ministry of Transport and Communications, 1968, p. 11). Additionally, it has been argued that the potentiality for liberalisation provided in the law which established SOL¹⁸ might have been a compromise between differing views (ibid.). Despite the existence of these factors which limited the potential for changing the status of SOL, proposals for altering the structure of the profession were offered since the early 1960s. These proposals typically favoured a change towards liberalisation although one of them suggested more state control of the profession.

4.1 Early Proposals for Change: the 1960s

An early attempt towards the liberalisation of the Greek auditing profession dates to the early 1960s. A few months before his departure from Greece in June 1964, Leslie Mattingly (the British technical consultant) proposed a change in the organisation of SOL. Mattingly's plan was to minimise or eliminate state interference in the administration of SOL and to encourage competition between CPA offices (Grigoracos, interview 14 January 1994). However, Mattingly's proposals were neither adopted by the government nor by SOL. In a letter to SOL written later, Mattingly stated that (trans.): "... the throwing out of my proposal initially frustrated me ... but later developments made me reach the conclusion that SOL has a proper organisation structure to ensure observance of auditing standards as a security to the investing public" (quoted in *Business Administrative Bulletin*, Vol. 31, 273, p. 23/1623).

Four years later, a detailed proposal emerged which advocated moving in the opposite direction, to more state control. In September 1968, during the military junta 1967-1974, a draft legislation was prepared by the then Minister of Transport and Communications Mr S. Lizardos (Ministry of Transport and Communications, 1968). The preamble to the Bill "On the Establishment of the Body of Greek Certified Accountants" stated that although SOL had been quite successful and was accepted by the financial market and the business

¹⁸According to article 12 of law 3329/1955 which established SOL "... two or more CPAs may, under the permission of the supervisory council, establish an independent office".

community,¹⁹ it was deemed that under its current structure "... it had reached its potential" (ibid., p. 13). It was proposed that improvement would now be secured by making auditors public servants (article 27). SOL, however, would retain its self-governing status and its essential structure would not change.

In the preamble to the 1968 Bill, two basic reasons were advanced to justify the proposed reforms. It was argued that by becoming public servants, auditors would assume a higher prestige and enhanced authority in relation to auditees. This was deemed necessary to secure more effective audits. Further, due to relatively low remuneration and the absence of any insurance provision for auditors (neither a pension nor illness coverage schemes for members of SOL had been instituted), some of the most respected auditors tended to leave SOL for better paid positions in industry. Hence there was a risk that in the long run SOL might become weak.

The more radical alternative of liberalising the profession was overtly discounted (ibid., p. 13). It was considered that establishing auditors as freelance professionals would encourage a profit motive which might lead to an unacceptable deterioration in the quality of audit practice. It was perceived that liberalisation would lead to unfair competition amongst the auditors and encourage a return to the inferior levels of audit quality which persisted before the establishment of SOL. Nonetheless, it was envisaged that liberalising the profession, using the structure of ICAEW as a blueprint, was something that might take place in the distant future.

The 1968 Bill, however, was never enacted by the military regime. In practice SOL managed to resist this unwelcome proposal, which eventually disappeared from the

¹⁹ This acceptance is indicated by the large proportion of voluntary audits asked by companies, see figure 2.2 of chapter two. On the issue see also a letter from the President of the Supervisory Council of SOL Professor Spiliopoulos (*Naftemporiki*, 18 December 1959). In this letter it was emphasised that in several cases embezzlements and other problems were reported to entrepreneurs by auditors of SOL and that, as a result, a number of companies opted to use SOL on a voluntary basis. Spiliopoulos also suggested that those who wanted to avoid the audit by SOL in effect sought to hide the real financial position of their companies for tax or other reasons.

professional and political agenda. It appears that the repulsion of the Bill was largely the result of the efforts of J. Lambroukos, a higher state official who had also played important role in the establishment of SOL in 1955 (Grigoracos, interview 14 January 1994). Nevertheless, the debate over the Bill had a beneficial side-effect for the members of SOL; pension and illness coverage schemes were to be provided from 1969 (*ibid.*).

4.2 EPEL and the Abortive Reform of 1978

It is widely accepted that the 'life and soul' of EPEL was its founder, Dr. Staikos. Staikos commenced his adverse criticism of SOL before the establishment of EPEL in 1968, and intensified his attacks subsequently. The main criticisms levelled by EPEL against SOL have been described by Staikos and Tsekeris (1980). EPEL argued that SOL 'verified' financial statements compiled according to tax legislation rules, and not according to accounting principles;²⁰ that SOL operated on a monopolistic base; and that a number of foreign companies operating in Greece were audited by SOL and another multinational audit firm (for reporting abroad). The latter resulted in duplication and incurring of unnecessary expenses for audited companies.

EPEL, in attacking SOL, attempted to enlist the support of audited companies and the wider business community. For instance, EPEL expressed disapproval of 'whistle blowing' suggesting that (*trans.*): "... although the state has always the right to oversee the operation of a company, this should not be done by one of the company's administrative organs²¹, and paid for by the company itself" (*ibid.*, p. 14).

²⁰For example, a straight line tax depreciation was always applied according to the law, even in cases that this seemed unrealistic; or, various 'expenses' exempted from income for tax purposes were recorded in the balance-sheet, while such items were by no means expenses according to accepted accounting principles. On the other hand, accrued expenses were not recorded because they were not exempted for tax purposes (for example accrued retirement indemnity). However, in appreciating these arguments, it should be noted that this situation was the result of national legislation and it still occurs in Greece today. In addition, as has been explained, SOL has severely criticised such state intervention in accounting matters. It is worth noting that a member of the Executive Committee of EPEL who had taken part in the public criticism of SOL, after the liberalisation of the profession admitted that EPEL's criticism was unjustified and described it as 'libel' (interview, 10 January 1994).

²¹According to Greek company law 2190/1920 three are the administrative organs of a company: the Board of Directors, the General Assembly, and the Auditors.

Although EPEL agitated for liberalisation since its inception in 1968, it was only in 1975 that it managed to produce some visible results. Specifically, EPEL managed to lobby the Minister of Commerce Mr J. Varvitsiotis. On 10 October 1975 a committee was established by Mr Varvitsiotis to examine the organisation of the 'accounting/auditing profession', in view of Greece's accession to the EEC (Minoudis, 1978). It seems that the subject of the discussions at the committee proved very contentious and the committee concluded three years later (in summer 1978). The committee proposed a plan, known as the 'Minoudis Plan', which advocated liberalising the profession (ibid.).

As was explained in the Plan, the proposed legislation for the auditing profession drew heavily on the way in which the legal and public notary professions were regulated in Greece (Minoudis, 1978, pp. 26-35). It was further recognised that the essential features of the proposed reform - the liberalisation of the profession - had caused much dissent from various parties such as SOL. In addition, it was clarified in the Plan that those provisions from the existing legislation, deemed to be successful, would be retained. The Plan also recognised that SOL had played a vital role in the birth of the auditing profession in Greece and that it had performed satisfactorily very heavy duties, and attributed its success to the high standards of practice among its members. However, SOL was criticised on the grounds that: it did not offer incentives (economic and other) to its members; it functioned as a closed profession; it caused remonstrations from other professionals; and that it was not properly assimilated into the international economic establishment and was not trusted by foreign investors, because of its particular organisation (ibid., pp. 20-22). More fundamentally, it was argued that (trans.): "... the current form of regulation can be contended to hinder the natural evolution of the profession and obstruct the offer of the range of services wanted (in the market), at the expense of the national economy" (ibid., p. 28, my brackets). The most important characteristics of the reforms proposed by the Minoudis Plan can be summarised as follows:

- 1) All certified accountants would be members of the 'Body of Greek Certified Auditors', a new fully self-governing institute;

- 2) No limit to the CPA posts was prescribed. Anyone with three years of professional experience in accounting and/or auditing and a relevant university degree could qualify, provided that he/she passed professional exams which would be held on an annual basis;
- 3) Statutory auditing was greatly extended to encompass all companies with annual revenues in excess of a certain amount of money (DRS 25,000,000);
- 4) Auditors were allowed to engage in a wider range of activities than was then permitted, such as Management Advisory Services (MAS) or receivership work;
- 5) Auditors could practice the profession as independent professionals or could establish audit firms, but were considered to be unsalaried public servants (article one);
- 6) A lower limit of audit fees, annually revised, would be effected aimed at strengthening auditor independence;
- 7) Each auditor or audit firm should give fifteen percent of total annual revenue to the Institute. This amount would be allocated to those in the profession with annual income below a certain threshold.

The Plan encapsulated many of the views expressed by EPEL. This is evidenced on two grounds. First the support which EPEL gave to the proposal (Staikos and Tsekeris, 1980, p. 12). Second, not only were the basic provisions of the Bill more or less the same as the provisions of the articles of association of EPEL, but the wording and phraseology employed were often identical.

The Minoudis Plan was initially accepted by the Ministry of Commerce (Ministry of Commerce, 1978). When questioned by a group of Members of Parliament about the proposed reforms, the Minister of Commerce explained that the proposed reforms aimed at bringing Greek legislation into line with EEC, as Greece was contemplating full membership of the European Community (quoted in Staikos and Tsekeris, 1980, p. 12). In addition, the Minister of Commerce argued that SOL had caused protestations by other freelance professionals.

However, EPEL did not have sufficient support within the government to effect the reforms. It is worth noting that the then Prime Minister, Constantinos Caramanlis, had headed the

administration which instituted SOL in 1955. Grigoracos has also suggested that SOL managed to lobby the Deputy Prime Minister Mr G. Rallis (interview, 14 January 1994). A deputation of SOL met with Mr Rallis and convinced him that the proposed liberalisation would discredit the audit function and would lead to the unsatisfactory situation which persisted before the establishment of SOL. In their own argumentation, SOL made use of well publicised audit failures in Anglo-American countries during the 1970s or earlier, and emphasised that the success of SOL was due to its organisation (ibid.). As a result, the reforms emanating from the Minoudis Plan were not implemented by the government.

Despite the rejection of the Minoudis Plan, EPEL continued its efforts to liberalise the profession throughout the 1980s, primarily through articles in the economic and political press. In order to advance its cause EPEL might have attempted to enter into an alliance with SELE on the subject of liberalisation. Although these parties were natural allies, SELE proposed its own reform in 1983. These proposals excluded members of EPEL from automatically gaining the title of Certified Public Accountant (CPA) which was granted to members of SELE. The situation was criticised by EPEL²² (Staikos and Tsekeris, 1980, p. 24).

5. The Struggle for Liberalisation during the 1980s

5.1 SELE and the Abortive Reform of 1983

As stated earlier, the primary objective of SELE was the liberalisation of the auditing profession in Greece. To accomplish this end, SELE publicly disseminated criticism of

²²Before concluding this subsection it is worth referring to an other failed attempt of EPEL in a different accounting issue. The late 1970s was the time during which the General Accounting Plan (GAP) was compiled. EPEL had launched a very severe attack against GAP. With regular articles in the press and accounting magazines and with letters of dissent to the government, EPEL initially tried to prevent the completion of the project. When the GAP was completed, EPEL tried to hinder its compulsory application. EPEL wholeheartedly supported the view that the organisation of the accounting work, which was to a very large extent defined in the GAP, and the establishment of accounting standards and principles should be the responsibility of an upgraded and unified accounting/auditing profession. EPEL viewed such activities as a source of income for accountants which, with the implementation of the GAP, would be curtailed. EPEL's attitude was conspicuously admitted by Staikos (Delteion Forologikis Nomothesis, November 1970: 915).

SOL, advanced arguments in favour of liberalisation, attempted to lobby the government, and entered into a legal dispute with SOL.

SELE commenced its criticism of SOL shortly after its inception in 1979. The main points of criticism advanced by SELE against SOL were (SELE, 1982, pp. 14-15):

- 1) SOL was a monopoly and thus precluded other professionals from conducting statutory audits;
- 2) SOL was a closed profession because the qualification of members depended on long experience and availability of posts;
- 3) SOL had not gained the confidence of the investing public, was implicated in the stagnation of the Greek capital market, and was responsible for the creation of over-gearred and bankrupt companies;
- 4) SOL was responsible for the lack of accounting standards in Greece and an absence of order in the drawing up of financial statements;
- 5) due to lack of competition, auditing remained comparatively primitive.

Although there was substance to the first two charges as at 1982, the latter criticisms were rather rhetorical and contradictory. For example, no evidence was provided by SELE or any other source to confirm that SOL was responsible for the stagnation of the Greek economy from the middle 1970's. Further, no evidence was presented to support the contention that SOL was responsible for the creation of over-gearred and bankrupt companies.

The charge that SOL (in the early 1980s) was responsible for an alleged lack of accounting standards and anarchy in the drawing up of company financial statements can also be countered. Although in the immediate aftermath of the establishment of SOL a degree of anarchy prevailed in the preparation and presentation of financial statements, this only applied to those companies which were not then subject to statutory audit by SOL. The contention that in Greece in 1982 there were no accounting standards was also incorrect. As has been explained, the 'Code of Corporate Books and Documents', and the company law 2190/1920 prescribed basic accounting principles and standards, although in the early 1980s these standards required extensive updating and supplemented. Further, since 1981 the

General Accounting Plan had been compiled in which SOL had made a very significant contribution. The GAP contained modern accounting standards and guidelines which were fully compatible with the Fourth and other EEC Directives. In addition, SOL (as was explained in chapter two) actively promoted the accounting standards of the International Accounting Standards Committee (IASC), and had also developed its own standards and guidelines.

To sum up, SELE launched a fierce criticism of SOL and advanced rhetoric in an attempt to sensitise public opinion and mobilise support from the state and other centres of power, such as the business community. The ultimate object of this activity was to liberalise the auditing profession.

As mentioned earlier, SELE managed to lobby the Deputy Minister of Commerce Mr A. Kazazis in early 1983 (interview with a CPA of SOL who was then closely acquainted with a senior official at the Ministry of Commerce, 22 January 1994). In the summer of 1983, Mr Kazazis established a committee to examine the function of auditing in Greece. All interested parties were invited to participate and offer proposals for reform. SELE (1983c) submitted to the committee a plan for a parallel recognition of its full members in October 1983 (SELE's plan ignored members of EPEL). In essence, this plan provided for two independent bodies, SOL and SELE, under a common supervisory council consisting of 17 individuals drawing from: SOL; SELE; the state; representatives from audited companies; the academic community; the Athens Stock Exchange; and the Greek Confederation of Labour (the peak association of labour). It was proposed that the responsibilities of the new supervisory council would include: the supervision of the quality of audit practice; the administration of professional exams for qualification (any limit on the number of CPA posts would be abolished); the establishment of a committee to work out accounting and auditing standards; and the establishment of a code of professional ethics.

SELE's proposals suggested that itself and SOL would continue, at least initially, to have their own rules of operation. This meant that the procedures for qualifying as a CPA would not change. Further, it was provided that members of either body would have the right to move to the other.²³ According to the plan (ibid., p. 7), the reforms would allow the state to maintain substantial supervision of professional practice through the supervisory council. In addition, the monopoly of SOL was to be abolished and fair competition introduced, in the expectation that the quality of audit services offered would improve.

However, the proposals offered by SELE were ill-fated, as was the EPEL-influenced Minoudis Plan in 1978. The reasons were the same; SOL successfully criticised the plan and SELE failed to gain wide support from within the government. Indeed, besides the Deputy Minister of Commerce A. Kazazis, no other member of the government appeared to support liberalisation of the auditing profession. SOL proved very successful in its own lobbying activity and, before the committee reached any conclusions, Ministerial Decision K3/2098 was issued on 31 August 1983 (*Government Gazette*, B505/31-8-1983) based on law 876/1979. As explained in the previous chapter, this Ministerial Decision improved the strategic position of SOL prescribing that some additional categories of companies (mostly industrial concerns) should be audited by SOL.

SELE reacted adversely to this *fait accompli* and requested that the Ministerial Decision be revoked. In a dissenting letter of 9 September 1983 to the Minister of Commerce (SELE, 1983a), it was emphasised that (trans.):

"... this decision strengthens a failed institution at the expense of all efficient and creditable professionals ... the government should seek to put an end to the anarchy and disorder in the presentation of financial statements ... it is inconceivable how the government decided to entrust this formidable task to SOL which, after thirty years of life, has not accomplished a significant contribution."

²³The expediency was clear; members of SOL would rush to join SELE as they could now qualify after five years of practical experience, instead of having to follow the long and demanding procedure of SOL.

On the question of the above Ministerial Decision (K3/2098) a letter of dissent was also sent to the Deputy Minister of Commerce by some employees of international accounting firms in Greece (SELE, 1983b). In addition to duplicating the criticisms made by SELE, the addressers of the letter complained that the government had declined to discuss the liberalisation of the profession with senior accounting professionals from Europe who had visited the country (this indicates that SELE, in its attempt to defeat SOL, had sought support from European accounting associations). Further, the addressers of the letter stated that SEPEE, the trade union of the accountants employed by auditing firms, did not represent its members. The reason was that SEPEE, according to the letter, sought access into SOL so that (trans.) "... they preferentially become public servants²⁴" (ibid.). Finally, the addressers of the letter argued that the liberalisation of the auditing profession was related to the attraction of foreign investments into Greece. It was contended that if the Ministerial Decision was not cancelled, private audit firms would shut down because they would lose clients. As a result, foreign financiers would not be willing to invest in Greece because of a lack of efficient and creditable audits which SOL could not offer.²⁵

5.2 The Impact of the EEC Directives and the Ensuing Legal Clash

The European Community (European Union ever since the Maastricht Treaty in 1992) has to date issued 14 Directives aimed at harmonising company legislation among the member states. Of those Directives which have been adopted by Greece to date, three are directly related to the practice of auditing. The Fourth Directive sets out detailed rules on the format, content, valuation methods, audit, and publication of annual accounts and reports (EEC,

²⁴It seems that SOL had managed to win over SEPEE, offering its members potential access to membership of SOL. This explanation was supported by a member of the Executive Committee of the Trade Union of Members of SOL (interview, 23 January 1994).

²⁵Among the companies affected by the aforementioned Ministerial Decision (K3/2098) were some foreign subsidiaries which were already audited by private audit firms, that is, by members of SELE and EPEL. It is believed that a significant number of most of these subsidiaries, from 1984 onwards, appointed two auditors: SOL for statutory audits, and a private audit firm (SELE or EPEL) for reporting abroad. The majority of companies which came under statutory audit by virtue of the above Ministerial Decision were Greek joint-stock companies which, in essence, had not been audited before. They used the so-called 'law 2190 auditors' as explained in chapter two. As a result, although the Ministerial Decision K3/2098 was applied, no private audit firm shut down. On the contrary, private audit firms during the 1980s experienced a very rapid growth, and SELE membership from forty in 1979 stood at four hundred in the early 1990s.

1978). The Seventh Directive regulates in detail rules on the format, content, audit, and publication of consolidated accounts for parent undertakings (EEC, 1983). Finally, and most importantly for the auditing profession, the Eighth Directive regulates the minimum qualifications for auditors of public and private limited liability companies subject to the provisions of the Fourth Directive (EEC, 1984). The Eighth Directive also deals with the process which has to be followed by a person in order to qualify as a statutory auditor, and the permissible ways the audit profession may be organised.

The harmonisation of the Greek legislation with the EEC Directives took place in the late 1980s and greatly modernised Greek accounting practice (see Grigoracos, 1989b). As suggested above, the harmonisation was also crucial for the future of SOL because the EEC legislation prescribed rules about audit practice and the appropriate organisation of the auditing profession. Initially, the harmonisation appeared as an opportunity for SELE to press for liberalisation. The conflict between SOL and SELE over the implementation of the EEC Directives took place in two stages. The first relates to the enactment of Presidential Decrees to bring Greek law in line with the relevant EEC Directives. The second stage concerns the legal clash which ensued at the Council of State about the propriety of these Presidential Decrees.

The Fourth Directive was implemented in Greece by Presidential Decrees 409/1986 (*Government Gazette*, 1986b) for joint-stock companies (AE) and Presidential Decree 419/1986 (*Government Gazette*, 1986a) for limited companies (EPE).²⁶ Following the implementation of the Fourth Directive, the anachronistic and deficient provisions of Law 2190/1920 which had governed the drawing up of annual financial statements were discarded. A basic trait of the Fourth Directive was the increased disclosure on corporate financial reporting. The implementation of this directive had such an effect on accounting practice in Greece that Grigoracos described it as an "... accounting revolution ... which should have occurred years ago" (1989b, p. 5). Among the innovations introduced by the

²⁶With effect from January 1, 1987.

Fourth Directive in Greece were: uniform format of published financial statements; disclosure of certain financial information; the obligation for companies to accompany their financial statements with notes (the content of which were prescribed in detail); and modern valuation methods guided by the concepts of prudence and going concern.

In relation to auditing, article 51.1(a) of the Fourth Directive stipulated that: "... companies must have their annual accounts audited by one or more persons authorised by national law to audit accounts". As SOL was the only recognised body of auditors in Greece, Article 27 of Presidential Decree 409/1986 prescribed that companies which were deemed eligible for audit²⁷ were obliged to appoint members of SOL as their auditors. This meant that members of SELE and EPEL were excluded from the statutory audits of companies. These provisions were not unexpected as members of SOL had played a vital role in the working party which formulated the adaptation of Greek company legislation to the EEC Directives. It appears that the legislative process had been effectively captured by SOL. A member of SOL who had participated in the framing of the Presidential Decrees has argued that it was SOL who had actively sought the implementation of the EEC Directives, as a means of strengthening its position (interview, 20 January 1994). Capitalising on political support from the government, SOL pressed a sluggish state bureaucracy which promptly relegated the responsibility of framing the Presidential Decrees to SOL (ibid.).

The Seventh Directive was implemented in Greece through Presidential Decree 498/1987 (*Government Gazette*, 1987). With regard to the audit of consolidated financial statements, article 37 of the Seventh Directive prescribed that group financial statements "... must be audited by one or more persons authorised to audit accounts under the laws of the member state which govern that undertaking". When this provision was implemented in Greece under article 18 of Presidential Decree 498/1987, the statutory audits of consolidated

²⁷That is, 'large companies' which covered two of the three criteria defined by article 11 of the Fourth Directive:

- 1) balance sheet total ECU 1,000,000 or Drs 130,000;
- 2) annual net turnover ECU 2,000,000 or Drs 260,000;
- 3) average number of employees during the financial year 50.

accounts was also assigned to SOL. The enactment date of Presidential Decree 498/1987 was the 1 January 1992. This meant that the first financial year for which consolidated accounts would be statutorily produced was 1992. Before the implementation of the Seventh Directive, consolidated accounts in Greece²⁸ were not prepared, even by undertakings listed on the Athens Stock Exchange. Protopsaltis, a CPA of SOL and co-author of a Greek book on consolidated accounts, has suggested that by 1990 two or three parent companies had started preparing consolidated accounts, but these were for internal use only (interview, 2 February 1994).

Finally, the Eighth Directive was incorporated into the Greek company legislation through Presidential Decree 15/1989 (*Government Gazette*, 1989). According to its preamble, the eighth Directive had three main objectives: to harmonise the qualifications of persons entitled to carry out statutory audits; to ensure that auditors are independent and of good repute; and to ensure by means of an examination that auditors have a high level of theoretical knowledge and the ability to apply that knowledge in practice. The implementation of this Directive was crucial, as it was a chance for SELE and EPEL to earn recognition. However, it appeared that SOL managed to lobby the government successfully with the consequence that the liberalisation of the profession was postponed for a few years later.

Presidential Decree 15/1989 effected only minor changes in the legislation governing SOL. The basic structural and operational characteristics of SOL were not changed, because they were deemed to be in conformity with the provisions of the Directive. Other compulsory provisions of the Eighth Directive were also in conformity with the current arrangements of SOL:

- 1) article 2 of the Directive prescribed that auditors should be approved by a state authority or a professional association. CPA members of SOL were approved by the Supervisory Council of SOL which was the competent authority to grant approvals;

²⁸For details on group accounting in Greece see Papas (1992).

- 2) article three of the Directive prescribed that auditors should be persons of 'good repute' and not carry on any activity, incompatible under the law of the Member State. The relevant provisions of SOL were among the strictest within the EEC states;
- 3) articles 23, 24, 25, and 26 of the Directive included provisions with regard to professional integrity and independence of auditors. These provisions were fully satisfied by SOL. For example, due to the arrangements for setting and collecting fees, auditor independence was probably regulated more strictly in SOL than in any other EEC state.

Article 6 of Presidential Decree 15/1989 also included transitional provisions. Accordingly, professional auditors who had practised audits of company financial statements in Greece could become members of SOL, provided that they had qualifications equivalent to those of the Certified Accountants of SOL. However, members of SELE and EPEL did not take advantage²⁹ of these transitional provisions. One potential reason for this was that SELE and EPEL had ambitions beyond membership of SOL. Their main objective was the liberalisation the profession. Further, given the relatively low remuneration of SOL members, there appears to have been little economic incentive to their entering SOL.

The implementation of the Fourth, Seventh, and Eighth EEC Directives was a significant victory for SOL in the battle against SELE and EPEL. However, the legal validity of the Greek legislation which implemented the Fourth and the Eighth Directives³⁰ was questioned by SELE and EPEL before the Council of State.³¹ The legal contest started shortly after the issuance of the relevant Presidential Decrees. SELE and EPEL appealed to the Council of State and requested the nullification of Presidential Decrees 409/1986,

²⁹A handful of individual accountants applied but were not deemed by the Supervisory Council of SOL to cover the standards prescribed in the law (interview with CPA Maroulis, 5 February 1994).

³⁰EPEL and SELE did not appeal to the Council of State with regard to Presidential Decree 498/1987 (the implementation of the Seventh EEC Directive). One possible reason for this, among other legal ones, is that the effects of Presidential Decree 498/1987 on the practice of consolidated accounts was rather restricted as the legislation was loose and provided several ways for avoiding consolidation.

³¹In relation to the implementation of the Fourth Directive, SELE also protested to the Commission of the European Communities arguing that Presidential Decrees 409/1986 and 419/1986 had not been issued in accordance with specific provisions of the EC legislation (letter sent on 26 February 1987). However, a negative reply with respect to the alleged violations was sent by the Commission on 13 November 1987.

419/1986, and 15/1989 (individual appeals for each Presidential Decree filed on January 1987, February 1987, and March 1989 respectively). The most important reasons invoked were:

- 1) the Presidential Decrees were not issued on appropriate authorisation by Law 1338/1983, on formal legal grounds;
- 2) the Presidential Decrees contravened several compulsory provisions of the EEC legislation, such as articles 52 and 90 of the Treaty of Rome. In addition, these Presidential Decrees were not issued in accordance with the provisions of the EEC Directives and conflicted with the letter and spirit of these directives;
- 3) the Presidential Decrees created a monopoly in the market for audit services.

However, the Council of State in its decisions 3786/30-10-1990 (for the Fourth Directive) and 3791/30-10-1990 (for the Eighth Directive) rejected all objections invoked by SELE and EPEL. As a result, SOL strengthened its position.

Following the failure to gain satisfaction via litigation, the arena for the struggle for liberalisation moved to the political domain. During the 1990s the principal agitator for liberalisation was to be SELE. As has been suggested, following the death of its founder (Dr Staikos) in 1988, EPEL went into organisational decline.

6. Conclusion

This chapter has identified the principal actors in, and presented an account of, the struggle for the liberalisation of the auditing profession in Greece from the early years after the inception of SOL in 1955 to 1990.

During the period examined several proposals were made which aimed at liberalising the institution of auditing in Greece. Two accounting groups challenged SOL's position in this period: EPEL (the association established by ex-SOL member Th. Staikos), and SELE (the association of 'big six' accountants and auditors). EPEL was very active during the 1970s and early 1980s. However, during the 1980s SELE became the main rival group to SOL. In

this decade, the intra-professional conflict intensified when Greek company law was brought in line with the EEC directives.

SOL managed to preserve the existing organisation of the profession and its legally protected monopolistic position in the market for statutory audit services. SOL's strategy was to enhance its reciprocal corporatist relationship with the state. SOL actively assumed the role of watchdog over audited companies and protected the 'public interest'. On the other hand, the state preserved and extended SOL's legally sanctioned monopoly of practice. Another means used by SOL to strengthen its position was to establish amicable relationships with two national organisations interested in accounting matters, POL and OEE.

The nature of the intra-professional struggle from 1955 to 1990 was conducted against the wider socio-political backdrop of a period of state intervention in the macro-economic sphere, and tight state control of private companies. The failure of all attempts to achieve liberalisation during this period was not, therefore, simply the result of successful lobbying by SOL. State policy needs and priorities were in accordance with the maintenance of the existing organisation of the auditing profession.

During the early 1990s, however, a dramatic change took place in the economic and political affairs of Greece. The dominant state policy moved towards deregulation and privatisation. These changes encouraged a re-examination of the possible liberalisation of the auditing profession, and encouraged a more receptive attitude by government to those who advocated the reform of its institutions.

CHAPTER FOUR

THE LIBERALISATION OF THE GREEK AUDITING PROFESSION 1990-1993

1. Introduction

It is generally believed that the successful attempt to liberalise the Greek auditing profession effectively commenced in April 1990 when the conservative 'New Democracy' party came to power. The new government adopted a New Right policy with the principal object of reducing a huge public deficit. An austerity package, privatisation, and less state interference in the running of the economy were the basic tenets of this policy. The change in the political climate also favoured the application of privatising measures to the auditing profession.

The liberalisation of the Greek auditing profession was the result of successful lobbying by SELE, assisted by SEV (the Confederation of Greek Industries - trans.). The reform proved a highly contentious political issue and caused a sustained public debate. The government passed successive legislation which provided for the reform of the auditing profession, but it was met with strong resistance by SOL, the political parties of the opposition, and the media. The debate culminated in the liberalisation of the profession in April 1993.

The discussion in this chapter is guided by the four principal themes of the critical perspective on accounting professionalism identified in chapter one. While historical analysis will document the sequence of events which led to the liberalisation of the Greek auditing profession, the main contribution of the chapter lies in that it exposes the deeply political nature of the affairs of the Greek auditing profession, and reveals the catalytic role of the state. The chapter also discloses the dynamic of the interrelationships between the state and the various professional groups. It shows how a good working relationship between the state and SOL ceased to function, and how, when the political conditions changed, SELE entered into an intimate and preferential relationship with the state. Finally, the analysis in this chapter relates the developments of the Greek auditing profession to a number of structural factors, such as (a dramatic change in) the prevailing socio-economic and political conditions in the country, the advancement of an ideology which preached

economic and political liberalism, the role of international economic and political agencies, and the involvement in the affairs of the Greek profession of SEV - the powerful Confederation of Greek Industries.

As indicated, this chapter presents a detailed analysis of the dramatic events during the period 1990 to 1993 which led to the liberalisation of the Greek auditing profession. The material presented here is also the essential precursor to the analysis of the impact of liberalisation on auditor behaviour, which is discussed in later chapters.

This chapter addresses five main topics. First, the establishment of a committee in October 1990 to examine the organisation of the auditing profession in Greece is discussed. Second, the passing of legislation in September 1991 ('Article 75') which provided for an audit reform, the basic provisions of this legislation, and the criticisms it met, are explained. Third, the implementation of 'Article 75' through Presidential Decree 226/1992 and the establishment of a new body of certified auditors is described. Fourth, the overturning of basic provisions of 'Article 75' through successive legislation in order to accommodate the needs and wants of SELE, and the trenchant criticisms which it received, are presented. Finally, the retrospective views of two politicians on the liberalisation debate are presented. The two politicians had played a significant role in the institution of the audit reforms of the early 1990s, and their views shed some light on the reasons and conditions which enabled the radical reform of the Greek auditing profession.

2. The Initiation of the Liberalisation Debate in the 1990s

2.1 The Establishment of the 'Xarchas Committee'

The successful liberalisation of the Greek auditing profession was formally initiated by SEV. In a letter of 25 June 1991 sent to the Ministries of Commerce, National Economy, and Public Finance, SEV asked the government to address the issue of the liberalisation of the auditing profession (SEV, 1990). It is generally believed that SEV's interference played

an important role in instigating developments in auditing, as it indicated the depth of antipathy of the business community towards the existing organisation of the auditing profession.

SEV related the institution of auditing to the modernisation and development of the Greek economy, and suggested that the organisation of the auditing profession be reformed on the basis of free and fair competition by abolishing the "monopoly of SOL" (ibid.). Further, SEV argued that the proposed liberalisation of the auditing profession would: upgrade the quality of audits; provide more comprehensive information to the market; mean better protection for investors; and generally protect the 'public interest'.

It appears that the government acceded to SEV's request and the Minister of Commerce Mr Xarchas established a committee (known as the 'Xarchas Committee') on 24 October 1990 (by virtue of Ministerial Decision K2/7967/24-10-1990). The object of this committee was formally to examine the auditing profession in Greece, in relation to the organisation of the profession in other EEC countries. The 'Xarchas Committee' comprised senior public servants and representatives from all interested accounting associations (SOL, SELE, EPEL, OEE, and POL). Audited companies were represented by the 'Association of Joint-Stock and Limited Companies'. SEV did not participate for no formal reason.

From an early stage lobbying activities commenced. For example, on 4 October 1990, before the 'Xarchas Committee' was formally established, the content of a draft article of a Bill "On Competition" was 'leaked' to the press. This draft article discussed the liberalisation of the profession through the proposals which were made subsequently by SELE to the 'Xarchas Committee'. SOL reacted by sending a dissenting letter of 4 October 1991 to the Ministry of Commerce, and finally this draft legislation was withdrawn. It has been suggested that the publication of the draft article was a provocative act by SELE to test SOL's reaction to a potential liberalisation (interview with a member of the Executive Committee of the Trade Union of Members of SOL, 14 January 1994).

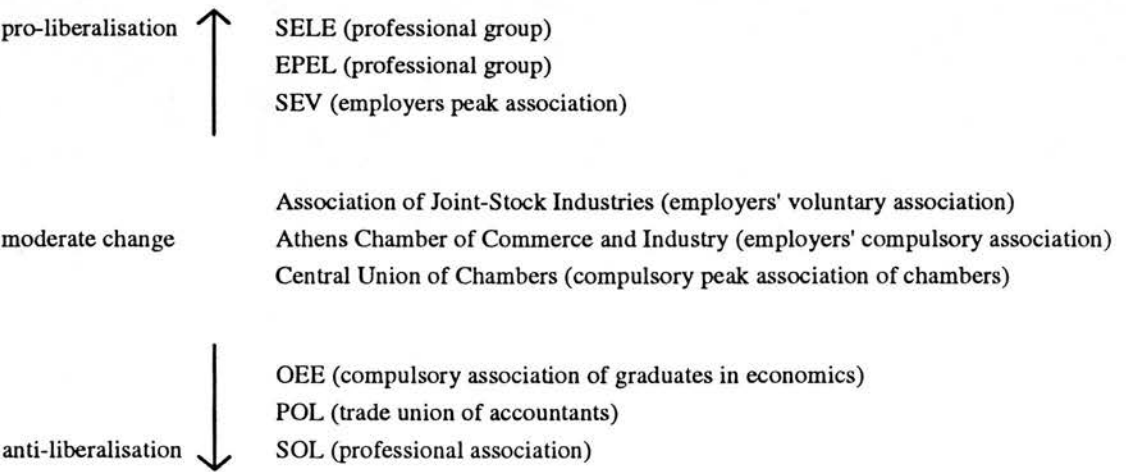
SELE also sought to mobilise international support for the liberalisation cause. This is evidenced by the involvement of the Institute of Chartered Accountants in England and Wales (ICAEW) in the Greek intra-professional conflict. The president of ICAEW, Mr Lickiss, visited Greece and met with Mr Xarchas on 25 and 26 November 1990 (during the discussions in the 'Xarchas Committee'), in an attempt to support SELE's cause (*Naftemporikie*, 27 November 1990). This outraged the Trade Union of Members of SOL because (trans.): "... SELE was using foreign interests to pressurise the government" (ibid.).

There is also evidence which suggests that SELE had actively sought international support for its cause as early as the mid-1980s. According to a retired member of SOL who was a close associate of a former governmental official at the Ministry of National Economy (trans.):

"... he (the governmental official) had told me when he was Under-Secretary (mid-1980s) that foreign governments had repeatedly attempted to pressurise the Greek government to reform the auditing profession. Commercial attachés and even ambassadors were involved in this. 'What will happen with the liberalisation of the auditing profession? when will you address this issue?' are questions he was frequently asked (interview, 11 October 1995).

Before discussing the proposals made to the 'Xarchas Committee' by interested parties, it seems justifiable to reiterate the identities of the parties which participated in the conflict over the organisation of the auditing profession during the 1990s. Figure 4.1 presents these interest groups and their position in relation to the organisation of the auditing profession on an axis relating two poles: pro-liberalisation and anti-liberalisation.

Figure 4.1: *Participant Interest Groups in the Audit Conflict 1990 to 1993*



2.2 The Reformist Camp

Although theoretically it was the aim of the 'Xarchas Committee' to examine the auditing profession in Greece, in practice most parties used the committee as a vehicle solely for making proposals for reorganising the profession. Of the groups which participated in the 'Xarchas Committee', the most radical were EPEL and SELE which submitted their proposals on 15 November 1990 (EPEL, 1990 and SELE, 1990). In their submissions, both groups made a general statement about the importance of an upgraded accountancy profession to the smooth and efficient running of the economy, and then proceeded to make very fierce criticisms of SOL. EPEL and SELE also presented some general principles as the base for the liberalisation of the auditing profession. A summary of the proposals made by EPEL and SELE for the organisation of the auditing profession are presented in the following figure.

Figure 4.2: *Summary Proposals Made to the 'Xarchas Committee' by EPEL and SELE*

	EPEL	SELE
1) Auditing should not be a 'closed profession', but should be liberalised	√	√
2) Audited companies should have the right to choose their auditor	√	√
3) Certified accountants may practise either individually or in auditing firms	√	√
4) Certified accountants may practise both 'accounting' and 'auditing'	√	
5) Small companies (Fourth EC Directive) should be subject to statutory audit	√	√
6) Certified accountants should belong to one professional institute	√	√
7) Auditors should be subject to disciplinary, civil, and penal action for malpractice	√	√
8) Standards of practice & disciplinary action should be the profession's responsibility	√	√
9) Strict entrance procedures to the profession should be established	√	√
10) Minimum audit fees should be instituted	√	
11) Indemnity insurance should be made compulsory		√
12) Revenue from one client cannot exceed 15% of total revenue		√
13) The state may oversee the operation of the auditing profession		√

Source: EPEL (1990) and SELE (1990)

EPEL and SELE were mostly in agreement with respect to the future organisation of the auditing profession. Both groups agreed on the basic objective, that of abolishing SOL's monopoly and liberalising the auditing profession. Their focal point was that auditing should not be a 'closed profession', in the sense that any one should be allowed to practise it,

provided he/she satisfied some predetermined criteria, such as good performance in exams and practical experience.¹ As will be explained, both the above groups favoured strict entry requirements to the profession (in fact a closed profession), after they had preferentially gained the title of CPA.

EPEL and SELE also agreed on several individual measures which, in their view, should be adopted by the government. For example, they proposed that the quality of audits of small companies (that is, companies which did not fulfil the criteria of the Fourth Directive) should be improved, because the so called 'Law 2190 auditors' were largely discredited due to the clearly perfunctory nature of their practice. In support of their case, EPEL and SELE made extensive use of 'public interest' arguments and speculated that the proposed reforms would have a number of beneficial effects such as: better service to clients; more complete information to the market with positive effects on the stock-exchange; reduction in the problem of tax-evasion; establishment of modern accounting and auditing standards; reduction in duplication of audits by various governmental departments; and timely detection of bankrupt companies.

However, EPEL and SELE were only nominal allies. The proposals submitted by the two parties to the 'Xarchas Committee' echoed their individual interests. For example, EPEL emphasised that there should be no distinction between accountants and auditors, and consequently professionals should be allowed to practise both accounting and statutory auditing. On the other hand, SELE invoked arguments for strengthening auditor independence and suggested that for each audit company or practice the revenue derived from one client should not account for more than 15% of total revenue. This measure mainly

¹ At this point some clarification of the meaning of the term 'closed profession' is necessary. This term was never used in its strict academic context by any of the opponent accounting associations in Greece. The phrase was used to refer to the *de facto* monopolistic position of SOL and, presumably, to the fact that the number of CPA posts was determined by the law, rather than by supply and demand forces in the market for professional services. It should be made clear that EPEL and SELE never favoured the abolition of entry requirements to the profession.

expressed the interests of the big international audit firms and might be a severe restriction for small audit firms or individual practitioners, presumably members of EPEL.

Most importantly, SELE attempted to gain automatic recognition as CPAs only for its own members. Specifically, SELE suggested that the government should immediately legislate that auditor members of FEE, i.e. auditors from SOL and SELE, had the right to conduct statutory audits of companies with effect from 1 January 1991. All other professionals with appropriate qualifications (members of EPEL included), should be recognised according to the transitional provisions of the Eighth Directive. Their qualifications should be examined by a committee, and further, these persons should have to take some form of exams.

The last reformist group in the 'Xarchas Committee' was the Association of the Joint-Stock and Limited Companies which, however, held relatively moderate views. Although this group favoured some form of liberalisation, it focused attention to issues such as the determination of audit fees, the role of auditing as a social institution, and some other technical issues (Ministry of Commerce, 1990b).

2.3 The Anti-Liberalisation Camp

SOL was the foremost anti-liberalisation group in the 'Xarchas Committee' and submitted its views on the auditing profession in a letter dated 15 November 1990 (SOL, 1990a). This letter effectively summarised the state of affairs of SOL and statutory auditing in Greece at that time. SOL explained that its members audited all large companies subject to the provisions of article 51 of the Fourth Directive. SOL also conducted statutory audits of certain other categories of companies. These categories included banks and insurance companies (which were excluded from the provisions of the Fourth Directive), listed companies, football clubs, mutual funds, etc. The letter stated that, in all, approximately 1,800 companies were audited by SOL as of 1990, out of a total of 25,000 joint-stock and limited companies. The remainder of these companies were audited by SELE, EPEL, and the so called 'law 2190 auditors' (article 36a of law 2190/1920).

SOL also explained that Greek company law and the legislation governing SOL had been fully harmonised with the EEC Fourth, Seventh, and Eighth Directives. Although EEC legislation prescribed that the persons eligible to perform statutory audits should be members of a professional institute, the organisation of this institute was not regulated. In fact, the organisation of the auditing profession differed significantly within EEC states for historic, economic, and social reasons. It was also suggested by SOL that a clear separation had been instituted in Greece between the statutory audit function and the various other activities performed by the wider 'accounting-auditing' profession. Members of SOL were by law confined to statutory audits and, as a result, they had achieved a high level of professional specialisation. SOL, besides its own auditing standards, had adopted and followed the auditing standards and guidelines of FEE and IFAC. SOL had also established very strict rules with regard to *assymvivasta*² and independence. These rules seemed to be some of the strictest among EEC member states.

In its submission, SOL also suggested that the modernisation of the 'accounting-auditing' profession was deliberately confused with the function of statutory auditing by persons who wanted to gain high esteem through the title of CPA, in order to obtain an easy access to a market of very profitable accounting, though not necessarily auditing, services. SOL also argued that complaints from some audited companies about the strictness of the audits of SOL were unjustified, as the same strict auditing procedures were applied to all audited companies.³ Finally, SOL proposed that the auditing of small companies (companies exempted from statutory audits) should be upgraded and this task should be deputed to POL and OEE. This proposal shows the close relationship between SOL and the two groups, and was also an attempt to reaffirm an informal alliance, ahead of the battle with EPEL and SELE.

²The word *assymvivasta* refers to capacities incompatible with being a CPA. As was explained in chapter two, the capacity of being a CPA in Greece was incompatible with almost any other occupation.

³This impartiality is considered the corner stone of free and fair competition. However it could be argued that the unaudited companies benefited from this strictness of SOL audits, at the expense of audited companies.

In its letter to the 'Xarchas Committee', SOL also stated that it reserved the right to comment on the views and proposals made by other parties. Indeed, SOL attempted to rebut all criticisms launched against it by EPEL and SELE in another letter to the Minister of Commerce, dated 29 November 1990. A summary of the main points of EPEL's and SELE's criticisms and SOL's reply is presented in figure A4.3 in the appendix to this chapter.

Two other anti-liberalisation groups in the 'Xarchas Committee' were POL and OEE. The views presented by POL to the 'Xarchas Committee' were those put forward in its twelfth annual congress (described in chapter three). In essence, POL supported SOL. OEE also favoured an organisation of the auditing profession which was akin to the way in which SOL was constituted and operated. However, OEE also made it quite clear that it was seeking a more active role in auditing matters itself, and requested that it should be deputed with the task of reorganising the auditing profession.⁴

2.4 The Conclusions of the 'Xarchas Committee'

The 'Xarchas Committee' reported in February 1991. The report provided a description of the organisation and legal framework of auditing in Greece, it briefly explained the mode of auditing regulation in EEC countries, and it recorded the views of all interested parties in relation to the organisation of the auditing profession in Greece. However, the committee did not achieve agreement on a reform package for the auditing profession. According to the report of the committee (Ministry of Commerce, 1990b, pp. 19-20), it was stated that the statutory audits of companies subject to the Fourth Directive should be conducted by auditors with increased qualifications. Such auditors should be members of a national institute, and further, they should be licensed to perform their audits by the institute or another competent authority of the member state. The report concluded that the exact manner in which the auditing profession might be organised was not regulated by the EEC

⁴It should be explained here that according to its establishing law 1479/1984, OEE was the competent body to organise the economist profession, of which the accounting profession was considered a part.

legislation, as long as the organisation of the profession did not contravene the basic principles of the EEC Directives.

Most importantly, the findings of the Xarchas Committee did not include any denigratory and detrimental comment about SOL. On the contrary, its conclusions supported SOL in that it was officially recognised that SOL operated in accordance with the EEC legislation.

The issue of the liberalisation of the auditing profession was not pursued further by the Ministry of Commerce. There is some evidence to suggest that Mr Xarchas was convinced that SOL had operated satisfactorily since its inception, and that it was an acceptable organisational form for the auditing profession in Greece. Mr Xarchas had, off the record, communicated his support of their cause to the representatives of SOL on the 'Xarchas Committee' (interview with one of SOL's delegates, 3 October 1994). Further, when in August 1991 Xarchas's name was mistakenly implicated in the dissolution of SOL, Mr Xarchas (who had just lost his portfolio in a government reshuffle) sent a letter to *Ökonomikos Tachydromos* (19 August 1991, p. 64), in which he emphatically disclaimed any responsibility for the dissolution of SOL and implied that he had not agreed with the liberalisation of the profession. However, it is very interesting and maybe indicative of Greek politics, that Mr Xarchas himself (interview, 6 October 1994), wholeheartedly supported the liberalisation of the Greek auditing profession, although he appeared to distance himself from the way in which the liberalisation was finally effected.

3. The Legislation of 'Article 75', September 1991

A few months after the 'Xarchas Committee' had published its conclusions, SELE, along with the business community, managed to successfully lobby the government and members of Parliament of the ruling New Democracy party. Despite the conclusions of the 'Xarchas Committee', the government decided to reform the institution of auditing. The issue of the liberalisation of the Greek auditing profession was now taken up by the Ministry of National

Economy. Draft legislation which provided for a reform of the auditing profession was introduced to the Parliament in September 1991. The government presented various versions of this legislation, which were greeted with fierce criticism. The legislation which was eventually passed ('Article 75') provided for the abolition of SOL and the establishment of a new institute of certified auditors. The detailed provisions relating to the new institution were to be regulated later through a Presidential Decree, issued by the Ministry of National Economy.

3.1 Draft 'Article 74', July 1991

The government made clear their intention to liberalise the auditing profession on 6 July 1991 when the Deputy Minister of National Economy E. Christodoulou⁵ made public the draft Bill: "*Investment Companies, Mutual Fund Companies, Modernisation of the Stock-Exchange and Other Provisions*". 'Article 74' of this Bill provided for the establishment of a Body of Certified Accountants-Auditors. It was proposed that SOL would retain the right to audit public sector companies and organisations. The two institutes, SOL and the Body of Certified Accountants-Auditors, would compete for the audit of private companies. The draft legislation also indicated that the details of practising the profession of certified accountant-auditor, the conditions for registering, and the responsibilities and *assymvivasta* of the new professionals would be regulated through Presidential Decrees. In essence, 'article 74' was an amalgamation of the proposals made by SELE in 1983 (discussed in chapter three) and those presented by SELE to the 'Xarchas Committee' in 1990. Even the name of the new institute 'Body of Certified Accountants-Auditors' was part of the title proposed by SELE in 1983.

There was a strong reaction to the draft of 'Article 74' by SOL. In a dissenting letter of 9 July 1991 sent to the Prime Minister, the Trade Union of the Members of SOL (1991b) emphasised that the Prime Minister himself was personally cognisant⁶ of the quality of

⁵During this period, the portfolio of the Ministry of National Economy was held by the Prime Minister himself, Constantinos Mitsotakis.

⁶Mr Mitsotakis had introduced law 3329/1955 (the law which established SOL) to the Parliament in 1955, and had also favoured the expansion of SOL's jurisdiction in a number of cases (interview with a retired CPA member of SOL, 21 January 1994).

services offered by SOL. The Trade Union of Members of SOL also complained that the Deputy Minister of National Economy had not consulted SOL, in relation to the proposed legislation.

The Trade Union of Members of SOL also attempted to enlist the support of the political parties of the opposition. On 9 July 1991 a letter was addressed to the Deputies of PASOK (the socialist party which was the largest member of the opposition), Synaspismos (the Coalition of the Left), and the Communist Party (KKE). In this letter (Trade Union of Members of SOL, 1991a), rhetoric which was highly critical of 'Article 74' was advanced. It was argued that the proposed legislation would demolish SOL which was a Greek national organisation, and the auditing of the "national economy"⁷ would be handed over to "foreign multinational firms". The government was also castigated for promoting the interests of "certain economic groups" which demanded the right to operate covertly.

In contrast to the negative attitude of SOL, SELE found the proposed legislation satisfactory and in full agreement with the relevant EEC Directives (*Kerdos*, 16 July 1991). A similar view was expressed by EPEL (*Kerdos*, 4 August 1991).

The Ministry of National Economy asked SOL for its views on the proposed legislation three days after the release of the draft of 'Article 74', on 9 July 1991. In its response, SOL (1991a) attempted to refute all reasons which could be advanced in support of the draft legislation, as no reasons had as yet been publicly invoked. SOL argued that the law of demand and supply in the case of statutory audits, within the context of the 'public interest' principle, could not be (and was not) applied. Given the particular characteristics of the Greek economy (high proportion of family-type companies, large scale of tax-evasion, and poorly organised and ineffective public administration), free competition in the market for statutory audits would lead to unfair competition among the auditors. In turn, this would

⁷This refers to the fact that the largest companies operating in Greece which were subject to statutory audits by SOL constituted the main part of the national economy.

downgrade the quality and reliability of auditor reports, to the ultimate detriment of the national economy.

SOL also explained that its members were confined by a strict code of ethics pertinent to public functionaries, which prevented public disclosure of the organisation's achievements. As a result, the tasks and the accomplishments of SOL had not been made known to the wider public. In the meantime, SELE and EPEL had defamed SOL with the object of promoting their self-interest agenda.

In its effort to repel 'Article 74', SOL also attempted to mobilise support from the wider public. SOL managed to have a very frequent presentation of its criticism of 'Article 74' in the daily political and economic press by developing relationships with journalists. Further, the influential weekly *Ekonomikos Tachydromos* condemned the proposed reform in an editorial (1 August 1991). As a result of SOL's campaign, the Greek Confederation of Labour (the peak association of labour) also condemned 'Article 74' and argued for its withdrawal (*Nea*, 20 July 1991).

Nevertheless, before the Bill which contained 'Article 74' was formally introduced to the Greek Parliament, there had been rumours that the government had decided to radically change 'Article 74'. Details of the intended changes had not been made public but "... once again, SOL was not even consulted" (Kokkinos, 1991, p. 20).

3.2 The Introduction to the Parliament of 'Article 75'

As will be made clear later, the government had not actually worked out any specific plan for the reorganisation of the auditing profession. Although the intention to liberalise the auditing profession was firm, the government attempted to reform auditing in a sketchy and haphazard way. During the parliamentary debate various proposals appeared, each with differing provisions. This, however, was also a result of the intense criticism levelled at the proposed legislation.

When the Bill which contained the provision for the audit reform was introduced to Parliament on 2 September 1991, The Deputy Minister of National Economy (Mr Christodoulou), with no formal notice, abandoned 'Article 74'. In its place, Mr Christodoulou proposed a new article, numbered as 'Article 75' with a radically changed content. 'Article 75' (Greek Parliament, 1991a) made the proviso that all certified accountants would belong to a new body of certified auditors (also named SOL), and that a register of all auditors would be maintained by the Ministry of Commerce. Transitional provisions were granted according to which all graduates in economics and accounting with fifteen years of working experience (who numbered tens of thousands) would be able to qualify as certified auditors, provided they succeeded in written exams. It was proposed that statutory audits of companies subject to the Fourth Directive by members of the new SOL would be optional.⁸ The new legislation was to come into effect on 1 January 1992. By this time all certified accountants would be allowed to practise the profession individually, under an audit company or in a partnership. Finally, it was indicated that the detailed provisions relating to the establishment and operation of the new SOL (such as qualifications, responsibilities and *assymvivasta* of auditors, and the operation and responsibilities of the supervisory council of the new SOL) would be defined by a Presidential Decree.

The reasons advanced in the preamble to 'Article 75' to justify the proposed reforms were exactly the arguments made earlier by SELE and SEV against SOL. Even the wording sometimes remained the same as in the original proposals of SELE and SEV. It was argued that SOL operated on a monopolistic basis, its operation had weaknesses and was ineffective, and that SOL had created serious problems which had been pointed out by representatives of the business community. It was also suggested that there was a need to harmonise the organisation of SOL with the organisation of the profession in EEC countries, and it was speculated that the proposed legislation would: lead to publication of reliable financial information; reduction in tax-evasion; more comprehensive financial information to the market; and new vacancies for graduates.

⁸ In other words, these companies would be allowed to appoint any graduate of economics as their auditor (the so-called 'law 2190 auditors')

These arguments seemed unsupported and vague. In addition, it should be remembered that the validity of some of the arguments advanced (SOL's monopoly, infringement of compulsory provisions of EEC Directives) had been rejected by the Council of State in October 1990 (Decisions 3786/30-10-1990 and 3791/30-10-1990). The remainder were refuted by SOL as discussed in the previous section and no fresh evidence was produced by the government to support the assertions made. Implementation of the proposed legislation would effectively liberalise the auditing profession. Most importantly, it would make statutory audits optional, in manifest defiance of the provisions of the Fourth EEC Directive. In addition, the proposed reform would facilitate members of SELE and EPEL in gaining full qualification as CPAs, through transitional provisions.

SOL launched a strong campaign against 'Article 75' in an attempt to pressurise the government into withdrawing it. On 3 September 1991, SOL publicised its denunciation of 'Article 75' in a letter signed by its Administrative Committee (SOL, 1991b). On the same date, the Trade Union of Members of SOL publicised its own criticism of 'Article 75' (Trade Union of Members of SOL, 1991c). SOL complained that the government had totally ignored the views of SOL and its Supervisory Council, as well as the conclusions of the Xarchas Committee (trans.): "... SOL was informed through the press, and once again was taken by surprise, with regard to the government's intentions" (SOL, 1991b). SOL also attempted to refute all assertions made by the government against SOL, and suggested that if the operation of SOL had weaknesses, was ineffective or had created serious problems, this should have been ascertained by its Supervisory Council, which was by law the competent authority.

In attacking the government's proposals, SOL emphasised that the proposed legislation promoted the interests of international audit firms, and the short-term self-interest of some representatives of the business community. The alleged benefits of liberalisation (that is, better information to the market, reliability, and reduction in tax-evasion) were all considered to be unfounded. In a competitive environment, SOL argued, a profit seeking

auditor would inevitably compromise its audit report at the threat of dismissal. Further, SOL challenged the government to provide a single example where a member of SELE or a international audit firm 'blew the whistle' on a client, or even included a critical comment in a published audit report.

SOL advanced further 'public interest' arguments to repulse the proposed audit reform (Trade Union of Members of SOL, 1991c). First, it was argued that companies and organisations in the public sector would henceforth operate covertly, as their auditors would be appointed on the basis of their loyalty to the government. Second, it was speculated that public tax-revenue from the big companies would be considerably reduced, as lack of stringent and unimpeachable audits would encourage an increase in tax-evasion. Third, it was suggested that company bankruptcies would increase, as banks would make their lending decisions on the basis of essentially unaudited financial statements. Fourth, the stock-exchange would become a trap, especially for small investors, as the auditors would become puppets controlled by their clients, and the accounting figures 'cooked' at will. Finally, EEC projects would be distributed to a 'favoured circle of contractors' and would mostly go unaudited.

SOL proved very effective in mobilising support for its cause and 'Article 75' was greeted by almost universal public criticism. All the political parties of the opposition condemned the proposed legislation. PASOK emphasised that SOL was a successful institution and advocated the withdrawal of 'Article 75' and the establishment of a committee of all interested parties to examine the issue thoroughly (*Ethnos*, 9 September 1991). A similar position was taken by Synaspismos (*ibid.*). The Communist Party expressed its total opposition to the abolition of SOL, and suggested that the government gratified the demand of SEV for a *de-facto* abolition of any essential audit (*Risospastis*, 6 September 1991).

The academic community also condemned the abolition of SOL. The Rectors' Council of the University of Athens (1991) suggested that the proposed reform would have negative consequences on tax-evasion and the capital market. A similar stance was taken by the

Rectors' Council of the University of Piraeus (1991). In addition, public figures such as Professors A. Aggelopoulos⁹ and X. Zolotas¹⁰ members of the Athens Academy¹¹ supported SOL (*Niki*, 17 September 1991). In particular, Professor A. Aggelopoulos, who was personally acquainted with the practising of auditing by SOL, emphasised that "... institutions like SOL should be supported rather than abolished" (*ibid.*).

The Pan-Hellenic Association of Stock-Exchange Investors (known in Greece with the acronym PASEHA) was another party which severely criticised the government for the proposed reforms (*Kathemerinie*, 10 September 1991). PASEHA suggested that the abolition of SOL would lead to the publication of unreliable financial statements because auditors would become management's "yes-men". SOL also gained support from the Chamber of Arts and Crafts, a compulsory association of small manufacturing businesses (press bulletin, 18 September 1991). This organisation emphasised that liberalisation would induce tax-evasion by large companies while at the same time the government had announced a "tax-persecution" of small businesses.

Allegiance to SOL was also showed by national trade unions of labour such as the Greek Confederation of Labour (press bulletin, 15 September 1991), the Greek Federation of Bank Employee Unions (press bulletin, 17 September 1991), and the Greek Confederation of Civil Servants (press bulletin, 17 September 1991). These trade unions particularly emphasised the repercussions of the abolition of SOL on tax-evasion and the reliability of published financial statements. Similar arguments were advanced by POL and OEE who severely criticised the abolition of SOL.

Finally, the press and the radio, as a rule, severely criticised the proposed reform during the whole parliamentary debate. The main point made was the repercussions of liberalisation on

⁹A. Aggelopoulos was the president of 'the committee of the wise men', a group of highly reputed economists who worked out a plan for the reconstruction of the Greek economy in 1990.

¹⁰Professor X. Zolotas was an eminent figure who had served as Governor of the Bank of Greece for many years. He was also the president of the unity government in 1990.

¹¹The Athens Academy is the highest intellectual institution in Greece.

tax-evasion, the stock market, and the reliability of published financial statements. The coverage of the debate by the media indicates that the issue had a high profile and caught popular imagination. Attention to the public criticisms was drawn by Deputy Ch. Visovitis, the government's formal sponsor of the Bill (see Parliamentary Meetings, 5 September 1991). It could be said that the criticism of 'Article 75' was unanimous across the whole political spectrum. However, papers supporting the government maintained a less aggressive, and in a few cases rather neutral stance (see for example *Apogevmatinie*, 6 September 1991 and *Eleftheros Typos*, 19 September 1991).

It seems that the liberalisation of the auditing profession had limited public support. The proposed reform was only supported by an ad-hoc group of some fifteen university teachers from the Athens University, and by the Central Union of Chambers (*Kathemerinie*, 9 September 1991). The main argument advanced in favour of the liberalisation of the auditing profession by these groups was that it would have beneficial effects on tax-evasion and the capital market, while SOL was also criticised as anachronistic and ineffective (*Express*, 19 September 1991).

To sum up, SOL was successful in mobilising support from a very wide range of social, economic, and political groups. It could also be said that the vast majority of public opinion strongly disagreed with the proposed legislation, and essentially supported SOL's position.

3.3 The Parliamentary Debate over 'Article 75'

The parliamentary debate of the Bill "*Investment Companies, Mutual Fund Companies, Modernisation of the Stock-Exchange and Other Provisions*", in which 'Article 75' was included, took place in two stages.¹² During the first stage the Bill was initially discussed at the 'Permanent Committee of Economic Issues' of the Parliament. At the second stage, the Bill was debated at three sittings of the summer session of the Parliament.

¹²According to the rules of order of the Greek Parliament at the first stage of the passing of a Bill, the new legislation is discussed at a pertinent permanent committee, consisting mainly of deputies with professional or other experience on the subject. Then, a full discussion takes place at one or more sittings of a parliamentary session.

During the parliamentary debate (which lasted for almost a month) various versions of 'Article 75' were discussed in the Parliament. These versions, four or five in total, provided for quite different forms of organisation of the auditing profession. The difference especially between the version first introduced to the Parliament (discussed in the previous section) and the finally passed legislation was enormous.

The discussion of 'Article 75' at the Permanent Committee of Economic Issues started on 5 September and concluded on 12 September 1991. The debate appears to have revealed that the liberalisation of the auditing profession was not unanimously accepted within the ranks of the government and the ruling party of New Democracy. Among the members of the government that were reported to disagree were the Minister and Deputy Minister of Foreign Affairs, Mr A. Samaras and Mrs V. Tsouderou respectively, and Mrs D. Bakoyiani (*Mesimvriinē*, 6 September 1991). Another governmental official who appeared sympathetic to SOL was the government's formal parliamentary sponsor of the Bill in question, Deputy Ch. Visovitis. Mr Visovitis made known his attitude when he first spoke on 'Article 75' in the Parliament. Addressing himself to Minister Christodoulou, Deputy Visovitis¹³ emphasised that: "... First, I think, we do not intend to abolish SOL. Second, we favour the openness of the profession ... and we believe that under the new arrangements certified accountants will serve the public interest rather than the interests of their employers" (Parliamentary Meetings, 5 September 1991).

However, it was clear from the wording of 'Article 75' that not only was SOL to be abolished, but also that the statutory audits were to become optional. Deputy Visovitis (*ibid.*) overtly disagreed with statutory audits becoming optional and also asked that the enactment date of the new legislation be delayed, so that SOL could adapt to the new conditions (it was initially indicated that the new legislation should become effective on 1 January 1992).

¹³Deputy Visovitis's disagreement with the proposed legislation drew the attention of Deputy G. Genimatas, PASOK's main parliamentary speaker. Mr Genimatas pressurised Mr Visovitis several times during the parliamentary debate to admit his disagreement explicitly.

From the examination of the Parliamentary Meetings (Greek Parliament, 1991a and 1991b) it appears that the opposition in the Greek Parliament (that is the political parties PASOK, Synaspismos, and KKE) followed a common stance with regard to 'Article 75'. Deputies of the political parties of the opposition fiercely attacked 'Article 75' on many grounds. The main arguments put forward mirrored the detailed criticism publicised earlier by SOL and are summarised below.

- 1) 'Article 75' was sketchy, improvident, and haphazard and should be withdrawn. Auditing was of immense importance to the national economy and, consequently, it deserved a complete statute to be introduced to the parliament to regulate the details of the profession;
- 2) the purpose of any reform should be to upgrade the auditing function by eliminating the potential weaknesses of SOL. The serving of public interest should remain the basic object of corporate audits;
- 3) The proposed legislation did not simply abolish SOL but also abolished the economic independence of auditors;
- 4) the basic provisions and principles of the Presidential Decree which would regulate the details of the profession should be included in the law. Otherwise, the Presidential Decree would be unconstitutional on technical legal grounds.

Given the trenchant criticism during the discussions in the parliamentary committee, the government showed a conciliatory spirit from time to time. For example, Mr Christodoulou stated that: "... there is a misunderstanding that the client will be allowed to select the auditor. There is no intention, whatsoever, to establish such a choice for statutory audits" (Parliamentary Meetings, 11 September 1991). When questioned that this provision was not included in the law, Mr Christodoulou explained that the government was committed to implement it through the Presidential Decree. This commitment was emphatically reiterated by Mr Christodoulou later in the parliamentary debate (Parliamentary Meetings, 19 September 1991).

During the discussion of the Permanent Committee of Economic Issues, amidst fierce criticism, it was decided that representatives of SOL, SELE, and OEE be invited to explain their views. Actually, representatives of these parties presented their views and proposals to

the Deputies during the second sitting of the Committee, on 11 September 1991. These views, in short, were the views outlined earlier.

In the meantime, an important development had taken place on 10 September 1991. The Economic Chamber of Greece (OEE) took the initiative to find a compromise between the antithetical views of SOL and SELE. The president of OEE, Mr Pappas, agreed on a draft 'Article 75' with the Secretary General of the Ministry of National Economy, Professor Pavlopoulos. There were three basic characteristics of this version, in relation to the previous one. First, it was stipulated that the audits of companies subject to the Fourth Directive by members of the new body would not be optional. Second, it was stated that the Presidential Decree which was to regulate the details of the new body should be issued "on the opinion" of OEE.¹⁴ Finally, the provision that certified accountants would be allowed to practise the profession individually, under an audit company or partnership was eliminated from the text of the article.

It appeared that SOL, as a last resort, tended to accept this formula. On the other hand, OEE was assuming the active role in auditing, which was OEE's objective. On the following day (11 September 1991) Mr Pappas presented this agreement to the Parliamentary Committee, the members of which mostly ignored it. Even Minister Christodoulou had not as yet had the exact wording of the agreement, although he was aware of its existence. Nevertheless, it was understood in the Parliament that he accepted the agreed version of 'Article 75'.

The Parliamentary Committee concluded the discussion of the Bill in question on 12 September 1991. However, just before the voting in the Committee, the Minister of National Economy Mr Christodoulou retracted the third point of the agreed text of draft 'Article 75'. Specifically, Mr Christodoulou added a paragraph, according to which auditors would be allowed to practise the profession individually, under a firm or partnership. The essence of this provision was that the auditing profession was clearly liberalised. As a result of this

¹⁴However, this "opinion" was not legally binding for the government.

retraction, SOL withdrew its provisional consent to the agreement between Mr Pavlopoulos and OEE (*Naftemporikie*, 20 September 1991). Thus, the debate would continue, even more intensely, a few days later in the summer session of the Parliament.

The discussion in the summer session of the Parliament lasted for three days, 18, 19 and 25 September 1991. During the first day, speakers for the government and the opposition put their arguments for and against the proposed reform. The main speaker for the government, Deputy Visovitis, applauded the fact that statutory audits would not be optional, as was initially suggested. Further, Deputy Papademetriou (the president of the Permanent Committee of Economic Issues) explained the benefits which were expected to follow the introduction of free competition in the market for audit services. These benefits, it should be noted, were the claims made by SEV and SELE, as described earlier.

From the side of the opposition, Skoularikis (PASOK) suggested that SOL had made a significant contribution to the national economy, and could have offered more if the state administration had co-operated. He then insisted that SOL should be upgraded and modernised, rather than abolished. With regard to the practice of the profession by audit firms or companies, he argued that a 'commercialised' client type relationship between auditors and audited companies would be created which, in turn, would certainly have adverse consequences on tax-evasion and the stock-exchange.

Skotiniotis (Synaspismos) argued that the proposed legislation was sketchy and should be withdrawn, notwithstanding some improvements introduced by the government during the debate in the Parliament. He also suggested that the regulation of the auditing profession should be governed by four principles: complete auditor independence; non-negotiable audit fees; high standards for qualification as auditor; and full time auditorship.

Pafilis (KKE) argued that the proposed legislation was deliberately sketchy and that "... the government's intention is to set companies free from any essential and impartial audit"

(Parliamentary Meetings, 18 September 1991). At the same time, he argued, some professionals who had felt passed over were given easier access to the profession of certified accountant. Skylakos (KKE) anticipated that, under the proposed arrangements, auditors would not only stop 'blowing the whistle' on their clients, but instead, try to conceal any breach of law.

Baltas (PASOK) argued that it was not only the quality of auditing that was placed at risk by the new legislation. He associated the liberalisation of the auditing profession with the privatisation programme of the government. Specifically, he implied that the government was not facilitated in this programme by SOL's impartial and unimpeachable evaluations of businesses to be privatised. He questioned that foreign accounting firms were better than SOL, and went on to give examples of foreign accounting firms being involved in controversial transactions.¹⁵ The association of the proposed audit reform with the privatisation programme of the government was made explicit by Klavdianos (PASOK). Deputy Klavdianos (a former member of SOL himself) accused the government of trying to abolish SOL so that they could "sell out" state companies, undisturbed by any controls.

During the discussion in the Parliament on 19 September 1991 the opposition intensified its criticism on 'Article 75' in an attempt to pressurise the government to withdraw it. Deputy Genimatas, PASOK's main speaker, suggested that the government had submitted to the pressure of those who equated the liberalisation of the market with unaccountability. He also pledged that PASOK would rectify all detrimental changes which the incumbent government would finally introduce: "... we shall restore the institution of auditing", he emphasised (Parliamentary Meetings, 19 September 1991). Skoularikis (PASOK) argued that auditing should not be commercialised, and Gianaros (Synaspismos) emphasised that 'Article 75' was effectively a general authorisation to the government to regulate a crucial issue at their desire, through a Presidential Decree.

¹⁵Baltas (who later became Deputy Minister of National Economy in a PASOK government) made specific reference to Salomon Brothers, who estimated the value of the Bank of Piraeus, before its privatisation, at DRS 2,5 billion. When this bank went public shortly after, its value allegedly almost quadrupled.

The government attempted to refute this criticism by promising to establish strict procedures of entrance to the profession, high standards of practice, and close supervision of auditors through a disciplinary and supervisory council. The Minister of Public Finance, Mr M. Galenianos, stated that the intention of the government was to extend statutory audits so as to encompass four to five thousand companies. With regard to audit fees, Mr Galenianos clarified that only a lower threshold would be set. Above this limit, audit fees would be freely negotiable.

The Minister of National Economy (Mr Christodoulou) rejected all accusations that the liberalisation of the auditing profession was, in any sense, related to the "selling out" of public wealth through the privatisation programme of the government. He went on to associate the liberalisation of the profession with the creation of a competitive international capital market in Greece. He asserted that although SOL might have been a successful organisation, it was an introverted one. Mr Christodoulou probably meant that SOL did not have strong international connections and was not promptly assimilated by the international accounting and economic establishment. He also went on to argue that all major international lending institutions and international investors preferred auditors' report from international audit firms.

In conclusion, it could be said that the situation seemed to be deadlocked after the second day of the debate in the Parliament.

In view of this stale-mate, the Assistant Minister of National Economy Mr A. Tsiplakos took an initiative to try to find a compromise. This initiative finally proved successful. On 23 September 1991 Mr Tsiplakos and SOL agreed on a modified 'Article 75'. This agreement provided for the establishment of a new body of certified auditors. The essentials of the establishment and operation of this body (qualifications and responsibilities of auditors, minimum audit fees, the responsibilities of a supervisory and disciplinary council for the new body and any other detail) would be defined by a Presidential Decree, issued "on

the opinion of OEE". The new legislation would be enacted one year after the publication of the above Presidential Decree in the *Government Gazette*. In order to reach this agreement Mr Tsiplakos withdrew the provision which stated that auditors would be allowed to practise the profession individually, under an audit company or in a partnership. He also promised that: "... with regard to the entrance to the profession, the government will adopt those party's proposals that will be the strictest". Further, Mr Tsiplakos and SOL agreed that the Presidential Decree should be issued on the following four principles: the institution of auditing and the qualifications of auditors should be governed by the Eighth Directive; full auditor independence should be safeguarded; non-negotiability of audit fees should be ensured; and strict *assymvivasta* should be established for the profession of certified auditor.

After this agreement was made, it was quite easy for the government to pass the modified 'Article 75' unanimously. The government complied with the opposition's request and accepted that the four agreed principles would be included in the text of 'Article 75'. This was very important as these principles became legally binding on the government, when subsequently drawing up the Presidential Decree.

The opposition also attempted to eliminate an apparent contradiction of 'Article 75'. As explained previously, it was stated in 'Article 75' that the Presidential Decree would, among other things, define minimum audit fees. This meant that, above the minimum threshold, audit fees would be freely negotiable between auditors and clients. However, one of the four principles prescribed that audit fees should not be negotiable at all. The opposition asked the government to delete the relevant provision for minimum fees. However, this was not accepted by the Minister of National Economy.

Nevertheless, the agreed text of 'Article 75' (law 1969/30-10-91), with the four principles as part of it, was finally and unanimously passed by the Parliament on 25 September 1991, although the opposition made some reservations with regard to the content of the

Presidential Decree. These reservations proved justified, as will be explained in the following section.

4. The Establishment of SOE

4.1 The Gestation of 'Presidential Decree 226'

The unanimous passing of 'Article 75' by the Greek Parliament was achieved after the government had accepted four principles that should govern the establishment of SOE (paragraph 4 of 'Article 75'). The government was also explicitly committed to the following:

- 1) co-operating with SOL and OEE in drawing up the Presidential Decree which would institute SOE;
- 2) ensuring that the qualifications of auditors under the new system would be equivalent, if not superior, to the relevant qualifications of members of SOL. New members should sit written exams according to the Eighth Directive (Parliamentary Meetings, 19 September 1991);
- 3) ensuring that if auditors were to be allowed to practise the profession in an audit firm or company, all its partners should be certified auditors and should participate in the everyday practice of auditing. In other words, capital firms¹⁶ were precluded from practising the profession (Parliamentary Meetings, 25 September 1991);
- 4) ensuring that audited companies would not have complete freedom in selecting their auditor, but instead, they would have to choose one from a short list of auditors, in a system similar to SOL (Parliamentary Meetings, 19 September 1991).

However, it was soon made clear that the government did not intend to adhere to their commitments by following the letter and the spirit of 'Article 75'. It seemed that the government's compliance with the final version of 'Article 75' was a manoeuvre to reduce criticism and ease the passage of its own reforms through the Parliament.

Shortly after the publication of 'Article 75' along with the complete law 1969/1991 in October 1991 (*Government Gazette*, A/167/30-10-1991), the Secretary General of the

¹⁶The term 'capital firm' here is used to denote an audit firm in which at least one partner or shareholder is not a practising accountant but simply a financier.

Ministry of National Economy Mr Pavlopoulos commenced work on the content of the Presidential Decree. However, the channels of communication between the Ministry of National Economy on the one side, and SOL and OEE on the other, were quite poor. This contrasted with the close co-operation between the Ministry of National Economy and SELE in working out the details of the new legislation. It appeared that SELE had long established close relations with some governmental officials who might play an important role in auditing matters. For example, SELE's lawyer during litigation at the Council of State in 1989¹⁷, Mr Bernitsas, had been appointed consultant to the Minister of National Economy, Mr Christodoulou.

A draft Presidential Decree was prepared by the Ministry of National Economy and published in the press on 15 January 1992 (*Naftemporikie*, 15 January 1994). The Trade Union of Members of SOL (1992c) objected that SOL had not participated in the preparatory process (see also *Naftemporikie*, 4 February 1992). The draft Presidential Decree was rejected by SOL because it broke the letter and spirit of 'Article 75', the commitments which Mr Christodoulou gave to the Parliament were not honoured, and because it was incompatible with the basic provisions of the Eighth Directive (Trade Union of Members of SOL, press bulletin 30 January 1992, see also *Naftemporikie*, *Kerdos*, and *Nea*, 2 February 1992).

SOL also objected to other provisions contained in the draft Presidential Decree. First, the draft legislation provided for transitional provisions according to which certain categories of individuals could qualify as certified auditors without taking written exams under the Eighth Directive. Instead, they would simply be interviewed by a committee nominated by the Ministry of National Economy. Second, it was stated in the draft Presidential Decree that under the permanent provisions an auditor would need eight years of experience to qualify, while members of SOL needed at least eleven. Third, it was suggested in the Presidential Decree that one client should not account for more than 15% of total revenue for an audit

¹⁷This legal dispute was over the legal propriety of the harmonisation of the Greek legislation with the EEC Directives

company, audit firm or sole practitioner. Such a provision, however, had been eliminated from the Eighth Directive on the grounds that it would lead to an oligopolistic market for audit services. Finally, SOL objected to the idea that audited companies in the private sector would be completely free to appoint their statutory auditors.

Of the other interested groups of accountants, EPEL suggested that although the draft Presidential Decree included some positive measures, it was an inappropriate framework for organising the accounting-auditing profession. EPEL also dissented because its members, it was deemed, were effectively precluded from gaining easy access to the new institute (*Express*, 2 February 1992). By contrast, and not unexpectedly, SELE found the draft Presidential Decree satisfactory (*Mesimvriñie*, 7 February 1992).

Following SOL's public criticism of the proposed legislation, the Minister of National Economy promised to set up a committee to redraft the Presidential Decree (*Express*, 7 February 1992). This committee comprised representatives from SOL, SELE, and OEE, a higher judge, and a professor of Commercial Law. By the end of February 1992, before the Committee had concluded its deliberations, Mr Pavlopoulos sent another draft Presidential Decree to SOL (*Eleftherotypia*, 3 March 1992). In this draft, many of the provisions which had already been discussed and agreed in the committee were fundamentally changed, and this version was not essentially different from the initial draft. SOL dissented and returned the draft Presidential Decree to Mr Pavlopoulos as unacceptable (*Naftemporikie*, 3 March 1992).

In early March 1992 Mr Christodoulou and Mr Pavlopoulos were respectively appointed as Governor and Deputy Governor of the Bank of Issue. A new Minister of National Economy was appointed in, Mr S. Manos,¹⁸ and a new Secretary General, Mr Ch. Kyriazis. Under the new leadership the Ministry of National Economy prepared another draft Presidential Decree which was distributed to all interested parties in mid-April 1992. There were only a few

¹⁸Mr Manos is generally considered to be the foremost right-winger of the New Democracy party.

changes in this draft Presidential Decree from the previous version. For example, it was suggested that up to 49% of the capital of audit companies could be held by certified accountants in another EEC member state, with no need for them to qualify in Greece. This meant that audit firms were allowed to be essentially capital firms. Another new provision was that the Supervisory Council would not be appointed by the state and would not have wider representation. Instead, its members would be comprised solely of members of the new professional institute, elected by the general assembly of certified auditors.

This draft Presidential Decree was unilaterally rejected by SOL (*Naftemporikie*, 16 April 1992). This draft legislation was also rejected by OEE in a letter sent to the Minister of National Economy (Mr Manos) on 30 April 1992. OEE complained that comprehensive discussion had not taken place, and criticised the draft Presidential Decree on the grounds that it was not in conformity with 'Article 75' and that it contravened the Eighth Directive. OEE made detailed criticism of all controversial provisions and suggested alternative formulations. The points made and arguments advanced by OEE were akin, in most cases, to those propounded by SOL, as explained hitherto.

Conversely, SELE wholeheartedly supported the Presidential Decree which was proposed by the government. SELE's president Mr S. Pantzopoulos, a partner of Arthur Andersen in Greece, suggested that the draft Presidential Decree provided a completely satisfactory legal framework (*Kerdos*, 15 May 1992).

However, it appeared that SOL was ready to compromise. The Trade Union of members of SOL (1992a) clearly accepted that a form of "controlled competition" should be introduced in the auditing profession and that international audit firms should be allowed to enter the market for statutory audits (*Naftemporikie*, 7 February 1992). SOL's view of the organisation of the auditing profession on the basis of "controlled competition" was described in a Presidential Decree drafted by SOL and submitted to the government (*Naftemporikie*, 3 May 1991). This proposal was rejected by SELE (*Kerdos*, 15 May 1992), and was never examined

by the government. The main reason for SELE's rejection can be speculated in that very few, if any, members of SELE would manage to gain recognition under SOL's proposals. In addition, SELE enjoyed preferential relations with the incumbent conservative government and, as a result, there was no need for SELE to compromise.

Nevertheless, it appeared that the Minister of National Economy had decided to ignore all criticisms and the alternatives proposed by SOL and OEE. On 28 May 1992 a draft Presidential Decree was introduced to the Council of State (Division E) for a preliminary examination¹⁹ of its legal propriety (*Eleftheri Hora*, 30 May 1992). The Supreme Court examined the draft Presidential Decree in five sittings (3, 5, 18, 25 June and 2 July 1992) and issued its final opinion 330/1992 on 7 July 1992. Using 'Article 75' as the primary legal basis, the Council of State found that basic provisions of the draft Presidential Decree were unlawful and made specific recommendations for correction. The unlawful provisions were related to issues such as the appointment of auditors by companies and the setting of audit fees. In addition, the Council of State suggested that professionals to be recognised through transitional provisions, that is members of SELE and EPEL, should take written exams according to the Eighth Directive rather than simply be tested through an oral interview. In effect, the Council of State essentially confirmed the validity of the views of SOL and OEE on the draft Presidential Decree.

The Ministry of National Economy amended the draft Presidential Decree according to the suggestions of the Supreme Court and on 14 July 1992 'Presidential Decree 226' was duly published (*Government Gazette*, A/120/14-7-1992). This meant that the new arrangements would become effective one year later, on 14 July 1993. 'Presidential Decree 226' was signed on the island of Mykonos (the famous resort), where the President of the Republic was spending his summer holidays. It was said that the original script (papyrus) of the legislation was sent to Mykonos and was returned to Athens by helicopter, in order to

¹⁹It should be clarified that this processing of a Presidential Decree by the Council of State has a preliminary nature. This means that any interested party has the right to appeal to the same court against particular provisions of a legislated Presidential Decree, following its formal enactment.

achieve as early a publication in the *Government Gazette*, as possible. This procedure is rather an unusual one for ordinary legislation and shows the importance which was given to the matter by SELE and the government.

4.2 'Presidential Decree 226' and SOL's Critique

The final draft of the Presidential Decree established ΣΩΜΑ ΟΡΚΩΤΩΝ ΕΛΕΓΚΤΩΝ

– ΣΟΕ (Soma Orkoton Elengton - SOE) which in English means 'Body of Sworn-in Auditors'.²⁰ The most important provisions of 'Presidential Decree 226' were as follows:

- 1) members of SOE were to be the only persons competent to perform the statutory audit of private and public companies, and state organisations. They would also provide expert opinion on administrative or financial issues, when so ordered by a court of law or state authorities;
- 2) four ranks of auditors were instituted within SOE, and all auditors were to be registered at a registry maintained by the Supervisory Council of SOE. The four ranks were: trainee auditor; articulated certified auditor; assistant certified auditor; and certified auditor. Any graduate in economics, commercial or industrial studies who wished to pursue the profession of certified auditor could be appointed as a trainee auditor. After two years of experience and on passing the professional exams (section A of exams as described in 'Presidential Decree 226'), a trainee auditor could be promoted to articulated auditor. Three years of further experience and further professional exams (sections B and C) would be required for one to qualify as an assistant certified auditor. Finally, another three years of experience and the preparation of a dissertation in accounting or auditing were to be necessary for one to qualify as a certified auditor. All of the above professional exams should be administered once a year;²¹
- 3) SOE was to be governed by its Supervisory Council which would comprise seven certified auditors elected by their general assembly for a three year term of office. The first Supervisory Council was to be appointed by the Ministry of National Economy. The responsibilities of the Supervisory Council were to include: the organisation of professional exams; the appointment and promotion of auditors; the issuing of auditing standards and guidelines; the supervision of the quality of audit practice and the exercise of disciplinary power;
- 4) being an auditor was deemed incompatible with the occupation of merchant, public notary or book-keeper. An auditor of SOE could be appointed as a receiver (this was

²⁰The international name for SOE is 'Institute of Certified Auditors in Greece' (ICAGR).

²¹The subjects to be examined were also defined in the Presidential Decree

prohibited under SOL), and he/she might also provide Management Advisory Services (MAS) to an audit client;

5) certified auditors could practise the profession either individually or within an audit firm or company. In the latter case, all partners or shareholders were to be certified auditors of SOE. By way of exception, certified accountants from another EEC member state could hold up to 49% of the share capital or the voting rights of an audit firm or audit company established in Greece;

6) the appointment of auditors by companies and organisations of the public sector was to be made for three consecutive financial years;

7) auditors' legal liability for malpractice was only possible in cases of gross negligence and fraud, and only if the injured party could prove that the damage incurred was due to his/her reliance on the auditor's report;

8) the amount of indemnity was to be limited to the greater amount between the fivefold annual emolument of the certified auditor involved and the fivefold annual remuneration of the President of the Supreme Court. Audit firms or companies were considered responsible for the payment of damages incurred by its members, and an audit firm or company's liability limit was set at the sum of the liability limits of its partners or shareholders. Professional indemnity insurance was to be mandatory;

9) the number of new auditors admitted to SOE was to be defined by the Ministries of National Economy and Commerce, on due consideration of the existing needs of the profession;

10) transitional provisions were granted according to which professionals from outwith SOL could become members of SOE on the following terms: a) holders of a relevant university degree with fifteen years of experience in auditing after passing newly instituted oral and written exams in accounting, auditing and taxation; b) professionals who were qualified auditors in a EEC member state with ten years of total experience (of which three in Greece²²), after passing the above exams; c) those professionals categorised above in (a) and (b) who did not have the required practical experience, would be classified at an appropriate rank according to their experience, and would be obliged to sit the pertinent professional exams.

The provisions contained in 'Presidential Decree 226' suggest that the Ministry of National Economy accepted some of the suggestions made by the Council of State. For example,

²²In other words, for these professionals both an aptitude test and an adaptation period, were prescribed. This is prohibited by the mutual recognition Directive, but Greece had not yet adapted its legislation to the aforementioned Directive. The English and Irish Institutes of chartered accountants made representations to the British Department of Trade and Industry, which took the matter up with the Greek National Co-ordinator and the EC Commission. As a result this provision was changed later, as will be explained.

written exams were prescribed for those practitioners (mainly members of SELE) who would qualify through transitional provisions.

Nevertheless, SOL attacked the published 'Presidential Decree 226' on several grounds. For example, one argument against it was that the list of subjects which would be examined in the professional exams (article 11) was inadequate, as several modules prescribed by the Eighth Directive were omitted.²³ However, SOL's criticism mainly focused on the transitional provisions granted by article 24 of 'Presidential Decree 226'. According to these provisions, those professionals (from outwith SOL) applying for the rank of certified auditor would be tested only in general knowledge in accounting, auditing, and taxation. This meant that the above persons would be exempted from most of the seventeen courses prescribed by the Eighth Directive (article six). Further, the Eighth Directive (article five) required that professional exams test a practitioner's theoretical knowledge of relevant subjects, his/her ability to apply such knowledge, and that the exams should be of university final examination level. Hence, the exams to be given should not simply test the general knowledge of candidates, but should also measure their in-depth knowledge of the field.

Further, SOL suggested that, according to the Eighth Directive, transitional provisions for entrance into the auditing profession might be granted only once. This had occurred in Greece through Presidential Decree 15/1989 (which harmonised Greek legislation to the Eighth Directive). As a consequence, the transitional provisions of article 24 of 'Presidential Decree 226' became invalid. This opinion has been supported by L. Georgakopoulos, Professor of Commercial Law at the University of Athens (March 1992). 'Presidential Decree 226' also left unregulated two issues, as the relevant provisions had been deleted after being found unlawful by the Council of State. These issues concerned the way in which audited companies in the private sector would appoint auditors, and the way in which audit fees would be defined. These issues are examined later in this chapter.

²³The missing modules were finally added in April 1993 through Presidential Decree 121/1993, as a result of SOL's criticism.

4.3 SOL's Defence against 'Presidential Decree 226'

During the gestation period of 'Presidential Decree 226' SOL's main objective was to mobilise wide public support in order to pressurise the government to adhere to the provisions of 'Article 75' in drawing up the Presidential Decree. It appears that SOL was very successful in getting its fierce criticism of the various drafts of 'Presidential Decree 226' published in the political and economic press. SOL also entered into an informal alliance with the Athens Chamber of Commerce and Industry²⁴ (ACCI) in February 1992. ACCI criticised the government's attitude towards auditing and developed a set of alternative proposals most of which came very close to SOL's views (*Naftemporikie*, 21 December 1991; 21 February and 5 March 1992; *Kerdos*, 5 March 1992).

It is also worth noting that the Trade Union of members of SOL attempted to draw the attention of European accounting organisations to the debate over the Presidential Decree. It appears that SOL also entered into an informal alliance with UnEAS (the Union of European Accountancy Students). UnEAS issued a statement in support of the views of SOL on 28 February 1992 (*Hemeresia*, 4 March 1994). On 6 April 1992 the Trade Union of members of SOL (1992b) sent a letter to UnEAS explaining the reasons why the then proposed legislation (the last draft Presidential Decree proposed by Pavlopoulos) was not in conformity with the Eighth Directive. A few days later, on 10 April 1992 UnEAS passed this letter to the Directorate General, Division of Financial Institutions and Company Law of the Commission of the European Communities (UnEAS, 1992).

SOL continued its attack against the government's proposals and at times it appears that there was a hostile relationship between the two parties. SOL complained that the government, quite unjustifiably, did not use SOL in the appraisal of state businesses and organisations which would be privatised, and favoured of multinational accounting firms instead (press-conference, 5 March 1992). Allegations were made that the government might

²⁴A leading figure of the Trade Union of Members of SOL has suggested that ACCI's support for SOL was on an *ad hoc* basis, and the outcome of a personal and political connection between the ACCI's President and a leading member of SOL (interview, 24 January 1994)

be aiming at getting "conveniently low appraisals" to facilitate its privatisation programme. SOL's main points of criticism were published in the political and economic press on 6 March 1992. Similar views were expressed in other press publications (see for example *Pontiki*, 18 June 1992 and *Nea*, 8 July 1992). There were also allegations made that the Minister of National Economy (Mr Manos) assigned the audit of state organisations to international audit firms although SOL had made a much lower bid²⁵ (*Kerdos*, 4 February 1993; *Vima*, 7 February 1993; *Pontiki*, 11 November 1993; *Vima*, 23 January 1994). One of these allegations referred to the assignment of the stock taking of wheat at the storehouses of KYDEP and SYNEL (two co-operative organisations of agriculture controlled by the state Agrarian Bank), at an extremely high fee²⁶ (*Vima*, 7 February 1993). One member of the team of SOL auditors who audited the Agrarian Bank described an incident, which was later circulated to members of SOL, thus (trans.):

"... I talked to the Chairman of the Agrarian Bank about this assignment. He appeared to be ignorant of the matter, although normally he is the person to assign these audits. One hour later he invited me to his office and explained to me that the assignment was given by the Ministry of National Economy ... I told him that at this high a fee we could not simply take stock; we could measure the quantity of the wheat seed by seed" (interview, 3 May 1995).

In another press conference on 26 May 1992, SOL released a summary of critical remarks from published SOL auditors' reports for the period from October 1989 to September 1991 (see table 2.6 in chapter two). The data presented showed that SOL had adopted a strict attitude²⁷ towards audited companies. SOL further accused the government of wanting to set audited companies free from any essential audit. Following this press-conference very critical articles were published in almost all the political and economic press (see for

²⁵Details for excessively high consultancy fees paid to one particular multinational auditing firm according to a contract signed by Mr Manos were published in newspaper *Vima* on 23 January 1994. To the allegations, the implicated auditing firm answered one week later (newspaper *Vima*, 30 January 1994).

²⁶According to *Vima* (7 February 1993), the assignment was given to three audit firms at a total fee of 130 million Drachmas, while SOL's quotation was between 15 and 20 million Drachmas.

²⁷SOL's strict attitude towards audits was implicitly accepted by Mr Xarchas (the Minister of Commerce) as one reason for the liberalisation of the auditing profession, as will be explained later in this chapter).

example, *Kerdos*, 27 May 1992; *Eleftherotypia*, 27 May and 2 July 1992; *Economicos Tachydromos*, 4 June 1992; *Greece's Weekly*, 15 June 1992).

As a result of such activities, SOL successfully managed to make the proposed Presidential Decree a national issue. Three deputies of PASOK (Papantoniou, Katsanevas, and Skoularikis) tabled a formal parliamentary question (*Nea*, 30 May 1992). In addition, Euro-Deputy Mr Ch. Papoutsis (PASOK) took the issue to the competent authorities of the European Community, arguing that the proposed legislation contravened compulsory provisions of the Eight Directive (*Eleftherotypia*, 25 June 1992). The editor-in-chief of *Economicos Tachydromos*, D. Stergiou, in yet another critical article asked: "... will Mr Constantinos Caramanlis (the President of the Republic) sign an unlawful Presidential Decree?" and suggested that the audit reforms which the government was trying to introduce were effectively a "punishment" for SOL for the strict attitude which its members had shown towards audited companies (*Economicos Tachydromos*, 4 June 1994).

Following the publication of 'Presidential Decree 226', SOL protested to the European Parliament and the competent authorities of the European Community. Specifically, a letter of protestation, signed by all members of SOL, was sent to the European Parliament on 11 December 1992.

In addition, SOL appealed to the Council of State against all laws, Presidential Decrees, and Ministerial Decisions issued in relation to the auditing profession, after the passing of 'Article 75'. Two basic arguments were put forward by SOL. First that the legislation contravened the compulsory provisions of the EEC directives, and second, that the Presidential Decrees and Ministerial Decisions issued were unconstitutional, not having been issued on the proper authorisation of a law. This appeal was to be heard in full session of the Council of State of Greece on 30 April 1993. However, for various reasons the case has not been discussed yet (June 1996) after being suspended for a number of times.

5. The Overturning of the Basic Provisions of 'Article 75'

5.1 The Abolition of the Principles of 'Article 75' and Further Amendments

It appears that the Ministry of National Economy never intended to regulate the auditing profession in accordance with the four principles of the unanimously passed 'Article 75'. As these provisions were legally binding, the Minister of National Economy (Mr Manos) decided to amend 'Article 75' by abolishing the provisions themselves, and to regulate the issue at his will. On the day 'Presidential Decree 226' was published in the *Government Gazette* (on 14 July 1992), Mr Manos passed 'Article 32' of law 2076/1992 through the Parliament. 'Article 32' was a *tropologeia*²⁸ which replaced paragraph four of 'Article 75'. The four principles of 'Article 75' which should govern 'Presidential Decree 226' were abolished and replaced by those provisions of the draft Presidential Decree which had been found unlawful by the Council of State (on the basis that they contravened the four principles of 'Article 75'). The replacement provisions provided for the following:

- 1) audited companies were to be free to appoint their auditor from a list of all certified auditors prepared by SOE.²⁹ Companies should invite tenders from one or more auditors, and could choose any tender. These tenders should be communicated to the Supervisory Council of SOE along with the actual audit fees levied. Further, a six year rotation period was prescribed for each auditor;³⁰
- 2) a minimum charge per audit hour was defined for all ranks of auditors at fivefold the hourly wage of an unskilled worker;³¹
- 3) each sole practitioner, audit firm or company should announce the charge per audit hour for all ranks of its audit personnel to the Supervisory Council of SOE. These records should be available to the public;

²⁸A *tropologeia* is a small piece of legislation (usually comprising one or two articles) which is added to a Bill that happens to be discussed in the Parliament. A *tropologeia* amends existing legislation and, in practice, is heavily used in Greek parliamentary politics by the incumbent government as a means of doing favours to political friends and associates, or for passing legislation which could meet severe public resistance or criticism.

²⁹Only individual auditors would be included in this list. However, if the auditor belonged to an audit firm or company, the assignment would go to the firm or company.

³⁰It was meant, however, that an audited company, at the end of the six year period could appoint another auditor from the same audit firm or company.

³¹This limit however was in practice quite low and did not have any effect. It was first estimated at DRS 2,600, while most auditing firms during the first year (1993) of the new system charged from DRS 5,000 to DRS 11,000.

- 4) certified auditors of SOE could also be engaged in the audit of those companies which were not subject to statutory audits (small companies in the context of the Fourth Directive). In addition, they could also undertake any accounting reorganisation work or audit, on request from any enterprise or public organisation;
- 5) The effective date of 'Presidential Decree 226' was changed from one year after its publication to 30 April 1993.

It is interesting to speculate on the reasons for the change of the enactment date of 'Presidential Decree 226'. As has been explained, 'Article 75' initially stated that the Presidential Decree would become effective one calendar year after its publication, that is, on 14 July 1993. This meant that the first Annual General Meetings of shareholders to appoint auditors under the new system would be those convened in May/June 1994 for the financial year 1/1/1994 to 31/12/1994.³² However, Greece was to hold general elections early in 1994, and it seemed that there was a fear that the opposition might cancel the reform, if they came to power.

Shortly after the passing of 'Article 32' it appeared that the new legislation still needed some 'decoration work'. Another *tropologeia* was passed, 'Article 31' of law 2093/1992, in November 1992. This legislation stated that accounting professionals who lacked a university degree but were of Greek origin, irrespective of their citizenship or country of qualification, could qualify³³ as CPAs through the transitional provisions of 'Presidential Decree 226'. 'Article 32' also prescribed that in the case of professionals with EEC qualifications, the prerequisite that they should have at least eight years of attested experience in auditing financial statements in order to qualify as CPAs in Greece was

³²Company law in Greece provides for two year ends. The first follows the calendar year, while the second has a six month time lag (first of July to end of June). However, the vast majority of companies follows the calendar year. Greek subsidiaries of foreign enterprises are exempted from the previous rule and are allowed to follow their parent company's financial year.

³³This *tropologeia* was introduced to the Parliament by the Minister of Public Finance Mr Galenianos. According to a senior member of SOL who was affiliated with the governing conservative party of New Democracy and was also heavily involved in lobbying for SOL, Mr Galenianos later apologised (talking off the record) by saying "... I was told that this would facilitate only two or three professionals from Cyprus" (interview, 23 January 1994).

deleted. This meant that the total fifteen years of experience required could be in the broad accounting area.

Another governmental deed which caused protestations from SOL took place following Ministerial Decision 70013/11-11-1992 which was issued by the Minister of National Economy, Mr Manos (*Government Gazette*, B/668/12-11-1992). Under this Decision, to the seven seats of the Supervisory Council of SOE Mr Manos appointed three certified accountants from SOL, three members of SELE, and as president he nominated Mr Nikolaou who allegedly was one of the legal advisors to SELE. The expediency was clear; members of SELE would hold a majority at the Supervisory Council, and this would be of crucial importance for the recognition of members of SELE as CPAs (*Naftemporikie*, 15 December 1992). Mr Nikolaou finally resigned from the Supervisory Council in March 1993 (*Naftemporikie*, 17 March 1993). In his place, Mr Manos appointed J. Sidiropoulos, a senior public servant at the Ministry of National Economy (Ministerial Decision 63431/ΓΔ 1401/30-8-1993). Mr Sidiropoulos was considered loyal to Mr Manos and firm supporter of liberalisation (interview with a leading CPA of SOL, 24 January 1994).

There were two further interventions by the Minister of National Economy Mr Manos. The first occurred on 9 June 1993 through Ministerial Decision 970-46326 which regulated some details concerning the monitoring and publicity of audit fees. Publicity would increase the price competition among auditors in the long run, and was considered to be favourable to audit clients. The decision also prescribed that certified auditors employed under any form of contract by an audit firm or company would be under temporary suspension from the right to sign auditor reports. This provision essentially favoured and strengthened the position of partners of audit firms, at the expense of their employees with full professional qualifications.

The last intervention of Mr Manos occurred through 'Article 27' (paragraphs 15-21) of law 2166/1993 (*Government Gazette*, A/137/24-8-1993). This new legislation was passed in

August, 1993 and regulated issues relating to the settlement of pending auditing assignments of SOL. This regulation, which was characterised by the President of SOL J. Maroulis, as hostile and unjustified (interview, 31 January 1994), was induced by members of SOL at the rank of certified auditor who had left or intended to leave SOL and establish their own audit practices (EX-SOL). The above law also stated that the net proceeds after the liquidation of SOL would be public revenue. Legally, this provision was debatable as the legal status of SOL was never unequivocally resolved.

5.2 The abrogation of Written Exams for Members of EPEL and SELE

The most profoundly arbitrary intervention of Mr Manos aimed at facilitating members of SELE in qualifying as CPAs took place in April 1993, just a few weeks before the new system became effective (on 1 May 1993). As has been explained, 'Presidential Decree 226' granted transitional provisions for non-members of SOL to qualify as certified auditors. Further, it was stated that these professionals should pass written exams in accounting, auditing, and taxation (article 24 of 'Presidential Decree 226').

However, Mr Manos prepared yet more legislation on the subject. 'Presidential Decree 121' (*Government Gazette*, A/53/12-4-1993) was introduced in April 1993 "... for the complete implementation of the Eighth Directive" (article 1 of 'Presidential Decree 121'). According to this legislation, non-SOL members (i.e. members of SELE and EPEL) standing for the rank of certified auditor would no longer need to take exams in order to qualify. Instead, a committee would be established to examine the working papers and the *curricula vitae* of these professionals. In fact, this settlement was one of the unlawful provisions of the draft 'Presidential Decree 226' which had been submitted for preliminary examination to the Council of State in June 1992. Further, 'Presidential Decree 121' stated that the results of this examination should be approved by the Supervisory Council of SOE in which, as has been shown, members of SELE had majority control.

Nevertheless, a committee was established shortly thereafter, comprising three members of 'La Federation des Experts Comptables Europeens' (FEE) from Scotland, Ireland, and France (the FEE Committee). The object of this committee was to examine the quality of candidates, and had to complete its task by 27 April 1993. Observance of this deadline was essential, as by 30 April 1993 all obstacles to the birth of SOE were to be cleared. The FEE Committee was received with much hostility by SOL members in Athens (interview with one of the committee's members, 11 November 1993). Nevertheless, the committee worked intensively in Athens for three days, and completed its task on April 27. During this time the committee interviewed and examined the working papers for one hundred and seventeen candidates for the four ranks of SOE. The results of this procedure are presented in the following table.

Table 4.1: Results of Tests for Auditor Qualification for SELE and EPEL (The FEE Committee)

Entrants found satisfactory	102
Entrants who failed because they did not present working papers	12
Entrants found unsatisfactory for other reasons	1
Entrants who did not present themselves	2
<hr/>	
Total number of entrants	117

Source: Data given to the researcher by a member of the FEE Committee (11 November 1993).

Of the 102 professionals who were found satisfactory 52 became certified auditors and the rest were classified in lower ranks. One astonishing characteristic of the above results is the surprisingly high rate of success (more than 99%). Only one candidate who presented working papers was judged unsatisfactory. Nevertheless, the validity of the above results has been questioned by several parties. Members of the Supervisory Council of SOE who came from SOL issued written reservations in the formal proceedings of the decision of the Supervisory Council of SOE which approved the results of the oral exams (interview with CPA J. Anastasopoulos, 20 January 1994). In addition, both SOL (interview with the legal advisor to SOL, Mr A. Kalogeras, 17 January 1994) and OEE (*Eleftherotypia*, 11 June 1993) appealed to the Council of State asking for the nullification of both, the results of the oral

interviews and Presidential Decree 121/1993 itself. Four objections were lodged against the validity of this procedure (SOL, 1993):

- 1) no member of the committee could understand Greek and, in addition, a large number of applicants did not speak English. Further, although the majority of working papers were in English, in several cases these papers were in Greek. The use of a translator in such a process was unacceptable and, in fact, the person actually used as a translator was a candidate himself;
- 2) it was not deemed humanly possible for a three-member committee to examine thoroughly the working papers of one hundred candidates in a foreign language in three days, given that the members of the committee were unfamiliar with the details of prevailing practice and legislation;
- 3) no care was taken to safeguard that the working papers presented had really been prepared by the candidates themselves. This was particularly the case for most of the candidates applying for the rank of certified accountant, as the only relevant proof on the working papers were their initials, indicating that they had reviewed the work done by junior personnel;
- 4) the approval of the interview results by the Supervisory Council of SOE was almost guaranteed, as members of SELE had the majority. In other words, the status of judge and judged coincided.

A senior manager in a 'big six' audit firm³⁴ described his personal view of the work of the FEE Committee and the procedure of oral interviews thus (trans.):

"... what first surprised me was that the committee of examiners visited the premises of audit firms. I mean, the examiners visited the entrants, rather than the opposite ... Generally, I do not think that the examination procedure was an event for which we may be proud of. I know of a number of people who qualified but have no auditing or accounting experience. They work as management consultants,³⁵ personnel, finance, tax, etc. One of them is the personnel officer of the firm he works for and, literally, he cannot explain the difference between debit and credit" (interview, 20 January 1994).

By contrast, a leading member of SELE and partner in one of the international audit firms operating in Greece suggested that the whole procedure was excellent (interview, 3 October

³⁴This individual was not a candidate himself, because he did not have a University degree.

³⁵Corroborating evidence on this was gathered by the researcher during the mail survey when a number of SELE auditors from all ranks explained that they could not answer the questionnaire because they worked as management consultants and had no accounting or auditing experience.

1995). He suggested that the FEE Committee was fairly strict in its deliberations and explained that the committee managed to complete their task quickly because each audit file examined contained work done by two or three entrants who were judged simultaneously. The interviewee justified the fact that SELE and EPEL members did not take written exams on the grounds that (trans.): "... it is unfair and unjustified for professional with 20 years of experience and international recognition to be asked to take written exams in order to qualify in Greece" (ibid.).

A member of the committee which was to have organised the ill-fated written qualification exams for members of SELE and EPEL gave his personal view on the abrogation of written exams thus (trans.):

"... I do not have evidence, so I do not jump to conclusions about why these exams were cancelled. However, I believe that if unimpeachable and strict exams had been held, this would have safeguarded the status of the profession. I must also say that I had communicated to all interested parties my absolute commitment to unimpeachable, strict, and fair exams" (interview, 29 September 1995).

5.3 The Reaction to the Government's Actions

In general, all governmental acts described above encountered fierce criticism. During the parliamentary debate on 'Article 32' which abolished the four principles of 'Article 75' (July 1992), the opposition severely criticised the government and demanded that Mr Manos withdraw the *tropologeia*. As an indication of the strength of feeling on the issue, most of the opposition walked out of the Parliament before a vote was taken on 'Article 32' (*Kerdos*, 15 July 1992). Further, the governmental deed was also condemned by the press. For example, on 23 July 1992 *Economicos Tachydromos* (the highly reputed weekly economic and political magazine which has always reported on auditing matters) presented a detailed and very critical account of the dramatic developments in auditing since the legislation of 'Article 75'. Particular attention was given to the comments on the draft 'Presidential Decree 226' made by the Council of State, to the governmental expediency with respect to this 'Presidential Decree', and to the dramatic parliamentary debate about 'Article 32' (law 2076/1992) on the

night of 14 July 1992. Thus, it seems that the *Economicos Tachydromos*³⁶ proved to be a firm ally to SOL in the fight against government's policy on auditing.

SOL notified the Commission of the European Community with regard to the new provisions in relation to 'Presidential Decree 121' which abolished written exams for SELE and EPEL members. On 30 April 1993 the Division of Financial Institutions and Company Law of the Commission sent a letter to the Greek government stating that all the provisions of the new Presidential Decree, especially the abolition of written exams from the transitional provisions, would be thoroughly examined with regard to their legal propriety (interview with the legal advisor to SOL, 17 January 1994). In the meantime, following SOL's protestation of 11 December 1992 to the European Commission (infringement case 92/5190), another warning letter with regard to 'Presidential Decree 226' was sent by Directorate General XV of the Commission of the European Communities to the Greek government on 25 February 1993 (*Economicos Tachydromos*, 24 June 1994). The government replied on 10 March 1993 pledging to respect the provisions of the Eighth Directive fully. However, "... in many cases the government did exactly the opposite" (*Economicos Tachydromos*, 24 June 1993, p. 100).

Nevertheless, it seems that SOL failed to win decisive support from the European Community. On 13 December 1993 the Commission of the European Community informed SOL that they decided to close the infringement case regarding 'Presidential Decree 226' because: "... incriminating legislation has been amended by Presidential Decree No. 121/93 of 12 April 1993 in order to be in conformity with the requirements of the Eighth Directive". From the wording of the letter, however, it is not clear whether the Commission had also examined SOL's complaints about 'Presidential Decree 121' itself, or whether the decision

³⁶ *Economicos Tachydromos*'s editorial policy has long supported and actively promoted the view that Greece has to effect significant structural changes which will open the markets to competition, and reduce and make accountable the public sector. However, with respect to the auditing profession, *Economicos Tachydromos* has held the view that free competition would severely downgrade the quality of audits, and would ultimately lead to lack of accountability of auditees, being them either private companies or organisations of the public sector.

was based on the Greek government's pledge to rectify all unlawful provisions of 'Presidential Decree 226' through 'Presidential Decree 121'.

The overall behaviour of the government was also severely criticised by the Economic Chamber of Greece (*Öconomicos Tachydromos*, 24 June 1993). Further, J. Marinos and D. Stergiou, director and editor-in-chief respectively of *Öconomicos Tachydromos*, published a particularly caustic article against the government's policy on the auditing profession on 24 June 1993. In this article extensive reference was made to another article published by *Economist* (the international magazine) on 22 November 1992 (*Auditing the Auditors*, pp 18-19). According to the authors, the *Economist* suggested an organisation of the auditing profession similar to SOL, which the government had abolished. Further, it was suggested that some government officials at the Ministry of National Economy had effectively deceived the government and the Parliament in reforming the auditing profession. Mr Marinos and Mr Stergiou also argued that these governmental officials had submitted to the pressure of some Greek and international interest groups, and that the ultimate objective of the audit reform was effectively to abolish the stringent company audits of SOL.

At this point, it is worth referring to a well publicised incident which sheds some light on the perceptions of the incumbent conservative government toward auditing. CPA of SOL J. Lambrou had audited the financial statements of the troubled Bank of Crete (then under state control) for the financial year 1-1-1991 to 31-12-1991. Among other critical remarks in his audit report, Mr Lambrou issued reservations with regard to the adequacy of the Bank's provisions for bad debts. Although Mr Lambrou did nothing more than his duty, the Deputy Governor of the Bank of Issue Mr Pavlopoulos (the previous Secretary General of The Ministry of National Economy), asked the President of the Supervisory Council of SOL to institute disciplinary action (*Eleftherotypia*, 3 July 1992; *Öconomicos Tachydromos*, 9 July 1992). Further, the Secretary General of the Ministry of Natural Economy, Mr Kyriazis, requested that Mr Lambrou explain his comments in his audit report.

The situation was ridiculed in an editorial of *Economicos Tachydromos* under the title "*The government does not want illegal acts committed by companies to get revealed*" (9 July 1992). Mr Kyriazis sent a letter to explain his views on the matter (ibid., p. 6-7). He also made an attempt to support the legal propriety of the draft 'Presidential Decree 226' (which was to be formally issued in a few days), and then went on to argue that (trans.): "... the basic mission of a certified accountant is not to police or discredit a company, but rather to verify the accuracy and completeness of the financial data ... the government tries to substitute repressive measures (SOL) for suspensive ones (SOE) " (my brackets, ibid., pp. 6-8). As might be expected, *Economicos Tachydromos* pilloried the government's view in another editorial under the title "*We hoped, in vain, that the government did not know what they were doing*" (*Economicos Tachydromos* 9 July 1992, see also *Economicos Tachydromos* 13 January 1994, p. 4).

Despite the general negative reaction against the government's reforms of the auditing profession, SOE, the new Body of Sworn-in Auditors, came into being on 30 April 1993. The Greek auditing profession was thus liberalised; the monopoly of SOL was abolished, and competition was introduced in the market for statutory audits. The financial year 1993 was the first period for which audited companies appointed auditors from SOE under the new arrangements.

In November 1993 the conservative government lost power and the socialist party PASOK took over. Initially, the governmental change brought forth much enthusiasm among the ranks of SOL for the nullification of all detrimental (for SOL) changes introduced by the previous administration. Hence, further dislocation of the auditing profession seemed likely. However, after some delayed, hesitant, short-lived, and abortive attempts by the PASOK government to restore SOL, it became clear that the liberalised auditing profession was too firmly rooted. A short discussion of these developments will take place in the conclusion to the thesis.

6. Politicians' Retrospective on the Liberalisation Debate

Interesting insights into the why and how of liberalisation of the Greek auditing profession were gathered from interviews with two of the politicians who played a significant role in the institution of the audit reforms of the early 1990s. The interviews were conducted post-liberalisation in 1994 and 1995 and shed some light on the reasons which precipitated and enabled the radical reform of the institutions of auditing. The first of the interviewees was Mr A. Xarchas (Minister of Commerce who initiated the audit debate which developed in the 1990s), and the second Mr S. Manos (Minister of National Economy 1992-1993) who played a key role in actualising the liberalisation of the auditing profession.

In his interview (6 October 1994), Mr Xarchas expressed relatively moderate views, and appeared to favour a conciliatory and compromise approach to politics. The interviewee gave a number of reasons for the liberalisation of auditing in the early 1990s. He explained that his party had the ideological position which favoured the liberalisation of all markets, and that Greece had to align its economic policy with what was happening internationally. The interviewee also associated the liberalisation of the auditing profession in Greece with the attempt by the government to attract foreign investments, and explained that the issue of the liberalisation of the auditing profession had been repeatedly raised by a number of international organisations. In addition, Mr Xarchas explained that audited companies had complained that (trans.):

"... SOL charged high fees and the way in which audits were conducted in some cases, in many cases as it has been ascertained by the market and the Ministry (of Commerce), was a drag on the efficient functioning of the market. Certified auditors of SOL had a sort of authority over an audited company, and for a period of time its operation was dislocated" (ibid.).

Referring to the way in which the legislative reform of the auditing profession was effected in the 1990s, Mr Xarchas admitted that politicians had showed reduced resistance to various pressure groups and that (trans.): "... politicians have improvised legislation influenced by the impression of the moment" (ibid.). Nevertheless, he justified the policy of New

Democracy by suggesting that his party had to effect some painful but necessary reforms (trans.): "... We tried to plough a hard soil and met severe resistance. This caused a delay and Mr Manos was possibly forced under time strain to go ahead a bit hastily" (ibid).

On the other hand, Mr Manos³⁷ adopted a partisan stance towards liberalisation (interview, 28 December 1995). Mr Manos started by stating that his aim was to organise the auditing profession in Greece in a manner similar to the organisation of the profession in advanced western countries. He then explained that he abandoned the draft Presidential Decree prepared by his predecessor (Minister of National Economy) Mr Christodoulou because it was not radical enough. Mr Manos was specifically questioned whether international organisations had played a role in the liberalisation of the profession and answered thus (trans.): "... no foreign organisation or agency talked to me about the profession, unless we asked for their opinion ... no one came to me ... nor did I need inducement ... because I firmly believed that liberalisation and competition should be introduced" (ibid.).

Mr Manos also referred to the reaction to his reforms. He implied that the rejection of a number of provisions of 'Presidential Decree 226' by the Council of State in July 1992 was the result of SOL's establishing connections with the judiciary³⁸ and the wider state machinery (trans.): "... You know, closed professions are capable of establishing strong connections". Mr Manos also expressed his bitterness at the support which *Economicos Tachydromos* and its Director, Mr J. Marinos, had given to SOL (trans.): "... It is astonishing

³⁷Before presenting the views of Mr Manos, however, it is worth referring to an incident which shows the close relationship between Mr Manos and SELE. When in the morning of 28 December 1995 the researcher called Mr Manos to fix the exact time of the interview, Mr Manos stated: "... A Mr Pantzopoulos (the leading figure of SELE and partner of Arthur Andersen in Athens) has just called me ... he is greatly involved with the auditing profession and I think it would be better for you to talk to him instead" (my brackets). The researcher explained that it was Mr Manos's views that were sought and that Mr Pantzopoulos had already been interviewed. Then, Mr Manos appeared willing to be interviewed and a meeting was arranged for one hour later, in his office in Athens.

³⁸In the same interview, however, Mr Manos applauded a later decision by the Council of State (dated 17 December 1995) which was favourable for liberalisation. This decision concerned a preliminary examination of a draft Presidential Decree (prepared by the incumbent socialist government) which aimed at a partial restoring of SOL (this legislation was ill-fated, see chapter seven).

... I can't explain this. The support SOL gained from Mr Marinos ... I am surprised". At this point the following discussion took place between the interviewer and Mr Manos (trans.).

INTERVIEWER: Mr Marinos is known to be a staunch supporter of the liberalisation of markets. However, as you know, in relation to the auditing profession he was concerned that its liberalisation would seriously harm audit quality and auditor independence.

Mr MANOS : What independence ... one who charges low fees can have no independence (implying that SOL charged low fees, thus contradicting Mr Xarchas).

INTERVIEWER: But do you know that following liberalisation audit fees for many typical Greek family companies have come close to 300,000 Drachmas (£800)? Can there be a real audit at this fee?

Mr MANOS : And why should we have audits at all there? ... the question is to have auditors where you need them, that is in the public sector. Which are the companies that appoint an auditor on the lowest fee? Its almost always family, owner-manager companies. What is the role of the auditor? To see if the company steals the tax office - you know there is a law on 'whistle blowing' for tax evasion - or to see if the company steals its shareholders? You start wondering for what reason you have the audit, who is the recipient of the audit (report) ... Therefore, I say that where I want audit is the public sector where I, the shareholder, have no audit at all ... In Greece the public sector is very extended. My interest is to audit the public sector. I want to shrink the public sector and make it private. You know there is no accounting, no accountability in the public sector, and that's that (ibid. - my brackets).

Mr Manos made many other denigratory statements concerning the lack of accountability of the public sector in Greece, and accused SOL of never having conducting satisfactory audits of public sector organisations. The interviewer probed Mr Manos, and the following discussion took place (trans.):

INTERVIEWER: Mr Manos, I know that auditors' reports of SOL were full of very critical remarks about the administration of public sector organisations.

Mr MANOS : Even so, these cases were not appropriately publicised. It was known possibly by one employee and nobody else.

INTERVIEWER: But these remarks were published in the press and, in addition, *Ekonomikos Tachydromos* had repeatedly written articles on the basis of auditor's reports of SOL which revealed even unlawful deeds.

Mr MANOS : When they were publicised, it was too late.

INTERVIEWER: Be it late, there was almost never action taken by the authorities.

Mr MANOS : Look, there was another aspect as well. Some times one comes forward to make a serious accusation. The credibility of accuser is of utmost importance.

INTERVIEWER: Do you want to suggest that SOL lacked credibility?

Mr MANOS : "I do not think SOL had credibility. SOL did not have credibility in public opinion, in political public opinion (among politicians), neither did it have credibility abroad" (ibid. - my brackets).

Referring to statutory audits of private companies, Mr Manos suggested that such audits were mainly important for large companies, and implied that obligatory auditing should be reconsidered for other companies. Concluding, Mr Manos suggested that the liberalisation of the Greek auditing profession paved the way for a significant improvement in accounting and auditing practice in Greece.

7. Conclusion

This chapter has provided an account of the struggle for the passing of legislation which aimed at liberalising the Greek auditing profession from 1990 to 1993. As was explained, the effected audit reform concurred with, and was probably precipitated by, a dramatic shift in state policy towards deregulation, privatisation, and 'less state'.

Taking advantage of this favourable political climate, SELE, assisted by SEV (the Confederation of Greek Industries), successfully lobbied the incumbent conservative government and liberalised the profession. In effect, the three parties (SELE, SEV, and the government) had acted in concert during the period from 1990 to 1993.

The liberalisation was effected through the institution of successive legislation. The analysis has shown that the government had not worked out a detailed and organised plan for the reorganisation of the profession. The strategic objective systematically and tirelessly pursued was that of liberalising the profession, and at the same time recognising members of SELE

as statutory auditors. To this end, the state legislative machinery was expeditiously used; in effect it was 'captured' by SELE to satisfy the needs and wants of its most influential members.

The government's attitude and behaviour met with severe resistance from SOL and the political opposition and incited the outrage, indignation, and remonstrance of the academic community, public figures, labour associations, and the media. However, the government showed firmness of intent and determination to proceed with their reforms.

The analysis has shown that the core of the arguments advanced for and against liberalisation revolved around the benefits or harm which it would cause on audit practice and auditor behaviour. The remainder of the thesis seeks to examine the question: *What impact, if any, did the liberalisation of the Greek auditing profession have on auditor behaviour in relation to the performance of various audit functions?* As was suggested earlier, by addressing this question the study attempts to combine analysis at the macro and the micro levels. It seeks to explore the impact of institutional change at the macro-level (in the form of the liberalisation of the Greek auditing profession) upon micro-level actors (that is, individual auditors). The following chapter explains the research methods which were employed to address this question.

APPENDIX

Figure A4.3: Arguments by SOL, SELE, and EPEL in the 'Xarchas Committee'

The State of Affairs of Greek Accounting Matters

Argument by EPEL/SELE

During the harmonisation of Greek company law with the EEC Directives (Presidential Decrees 409/1986, 419/1986, 498/1987 and 15/1989) basic compulsory provisions of the EEC directives were ignored and, as a result, the Greek legislation was not in conformity with the EEC legislation.

SOL's Rebuttal

Greek company legislation was duly brought in line with the letter and spirit of the Fourth, Seventh, and Eighth Directives. The Committee of the European Communities was notified of all the details of the new legislation, and no objection was expressed thereon. Further, the Council of State through its decisions 3786/1990 and 3791/1990 confirmed that the harmonisation of Greek legislation was made in accordance with the EEC Directives, and rejected all objections made by SELE, EPEL and other individuals.

Argument by EPEL/SELE

There was a need for accounting and auditing standards to be established in Greece.

SOL's Rebuttal

There were modern accounting and auditing standards in place in Greece. These standards were delineated in the General Accounting Plan (GAP) and law 2190/1920. After the harmonisation of the Greek company legislation with the EEC Directives these accounting standards were, in essence, those standards followed in the EEC and internationally. Further, SOL disseminated the International Accounting Standards of IASC to all audited companies. These standards were applied by SOL members, as long as they were in conformity with national legislation. In relation to auditing standards, SOL had promulgated its own standards, and fully applied the auditing standards and guidelines of FEE and IFAC.

Criticism of SOL

Argument by EPEL/SELE

SOL was a monopoly and a closed profession

SOL's Rebuttal

SOL was not a monopoly, either in legal or in economic terms. According to the Council of State (decisions 3786/1990 and 3791/1990) SOL was not a monopoly. These two court decisions dismissed all relevant charges made by SELE and other individuals. Further, the Commission for the Protection of Fair Competition (1980) adjudicated through its decision 12/1981 that SOL was not a monopoly.³⁹ Economically SOL was not a monopoly for two reasons. First, it was not SOL that determined audit fees, but its Supervisory Council. Second, the remuneration of members of SOL was publicly known, and was within the ranges of salaries of most employed accountants. In other words, no super-profits were gained by its members, a basic characteristic of a monopoly. In addition, SOL was not a closed profession. All Greek nationals or nationals of an EEC state could become members, provided they followed the prescribed procedures. When the Eighth EEC Directive was implemented in 1989 (Presidential Decree 15/1989), transitional provisions were granted. According to these provisions, practising accountants satisfying certain requirements (formal education and work experience) could apply to become members.

Argument by EPEL/SELE

SOL, according to estimations, had an insufficient number of auditors for its current work load. Specifically, it should have at least 2,300 auditors (while it had only some 500) for its current 2,500 annual audit assignments. In addition, at least 4,700 auditors would be needed for a total of 6,000 companies expected to come under statutory audits.

³⁹This commission was established under law 703/1977. The law was passed 1977 as a step towards harmonisation of the Greek legislation with the legislation of the European Communities. The responsibilities of this commission were to examine any allegations for monopolistic conditions in the market. The particular decision mentioned here was based on an opinion issued by professor of commercial law N. Rokas on 3 June 1980, see *Jurisprudence of Greek Courts* (1980) pp 642-648.

SOL's Rebuttal

This numerical exercise (SELE) was deliberately inaccurate in order to mislead the government and the public, while impressing upon them on the sensitive issue of unemployment. First, SOL audited only 1,800 companies, not 2,500. Second, the EEC had decided to increase the arithmetic limits of the Fourth Directive and, as a result, the number of companies subject to statutory audits was expected to decrease significantly. Third, the number of auditors required was estimated on a totally arbitrary base. For example, an auditor was estimated to work 25 weeks per year, while he/she normally worked⁴⁰ at least 45. In addition, it was not explained who would bear the additional costs, given that companies had complained of "the burden of audit fees".

Argument by EPEL/SELE

*SOL was responsible for the creation of over-gearred and insolvent companies.*⁴¹

SOL's Rebuttal

This assertion was quite wrong. In fact, there were 59 companies, as of 1990, under the administration of OAE, the national organisation for the reconstruction of insolvent companies. Of these 59 companies, 15 had never been audited by SOL and 25 started being audited in 1984 when they had become insolvent. Nevertheless, the auditors' reports of these companies from 1984 onwards were fully informative on the subject of their financial condition. In the case of the remaining 19 companies, a review of the track of their published balance-sheets would reveal that auditors of SOL had always given due warnings of any financial problems.

Argument by EPEL/SELE

Auditors of SOL were not independent because they were supervised by the Supervisory Council, and further, they had to report any case of tax evasion to the Ministry of Public Finance, according to article 17 of law 1563/1985.

⁴⁰For the details of SELE's numerical exercise see SELE 1990: 5.

⁴¹During the 1970s and 1980s a number of Greek companies, for various reasons, had experienced severe financial difficulties and several of them had, in effect, become insolvent.

SOL's Rebuttal

The Council of State overruled these assertions through its decisions 3786/1990 and 3791/1990. Further, it is a common practice world-wide for the state or some other authority to oversee the auditing profession, and such a provision had been included in SELE's own proposal to the 'Xarchas Committee'. In addition, in many countries auditors had a legal obligation to report severe legal offences to state agencies.

Competency of Members of SELE

Argument by EPEL/SELE

SELE had been accepted as a member of international accounting organisations, such as FEE and IFAC. However, its members, although internationally recognised as certified auditors, were not recognised in their own country.

SOL's Rebuttal

Membership in these international organisations does not prove the quality of the actual work performed by a member in one particular country. Further, these organisations have wider objectives and accept as members even non-auditors. Something similar occurred with SELE, which was a member of SEV (the Confederation of Greek Industries), while SELE was not an industrial enterprise. Further, the word 'Certified' was used quite unjustifiably,⁴² since members of SELE were not certified by any authority.

Benefits from the Liberalisation of the Auditing Profession

Argument by EPEL/SELE

The liberalisation of the auditing profession will reduce the problem of tax-evasion.

⁴²The use of the word 'Certified' in the title of SELE was legally questioned at civil courts in Greece in 1983, on the grounds that it was unjustified, since no public or other authority had granted this recognition. It was further argued that the title was misleading and could result in the detriment of other accountants who did not belong to this association. This appeal was filed by individual accountants (non-members of SOL) but it is certain that the Trade Union of the Members of SOL was behind this legal dispute. It appears that the court initially accepted the validity of this legal appeal and asked for evidence of damages. As such evidence was very difficult to gather, the case was not further pursued. The use of the word 'Certified' was also discussed in the press. The editor of *Economicos Tachydromos* asked the president of SELE: "... and now a rather tactless question; which is the authority that has recognised members of SELE?" (*Economicos Tachydromos* June 25, 1992, p. 85).

SOL's Rebuttal

No explanation was given for this assertion. In contrast, SELE had repeatedly criticised SOL because its members took care to see that companies observed tax legislation. For example, during the legal clash on Presidential Decree 409/1986 at the Council of State SELE supported the view that auditors of SOL lacked independence because they had to report any case of tax evasion by audited companies to the Ministry of Public Finance and, as a result, they did not support the interests of their clients.

Argument by EPEL/SELE

The proposed liberalisation of the auditing profession will result in more comprehensive information for the investing public.

SOL's Rebuttal

No explanation was given for this assertion, since financial statements in Greece were drawn according to the provisions of the Fourth Directive, and were generally based on international accounting standards.

CHAPTER FIVE

SURVEY RESEARCH METHODS

1. Introduction

So far in the thesis, the establishment and development of the Greek auditing profession was presented and analysed within the context of the socio-economic and political development of the country. The creation of SOL in 1995 and its operation as a quasi-state audit organisation was explained along with the long and intense intra-professional conflict which culminated in the liberalisation of the profession in the early 1990s. As was shown, the struggle over the liberalisation brought about a fierce public debate over the impact of liberalisation on the behaviour of auditors in relation to various audit functions.

It was stated in chapter one that the subject of the empirical research of this study is to conduct an investigation into the impact of liberalisation of the Greek auditing profession on auditor behaviour. This empirical inquiry, as will be shown, expands and deepens our understanding of the political nature of the affairs of the Greek auditing profession and, therefore, it reinforces the conclusions which can be drawn from the historical material presented so far.

This chapter presents the research methods employed to deal with the research question. Five main issues are addressed. First, the research question is formally introduced and related to the analysis presented in the previous chapters. Second, the research participants and the sampling design used are explained. Third, the instrumentation and the various steps taken to conduct the mail survey are described. Fourth, the statistical techniques employed to analyse the data of the survey are presented. Finally, the limitations of the empirical research of this study are discussed.

2. The Object of the Empirical Research

As has been explained, the term 'liberalisation' in this thesis is used to refer to two major changes introduced by the audit reforms in 1992. Auditor appointment and fee determination

became a matter to be freely negotiated between auditors and audited companies, and thus competition was introduced between auditors in the market for statutory audits. In addition, the audit reform abolished SOL and established SOE, the new institute of certified auditors. SOE membership comprised SOL auditors, as well as SELE and EPEL auditors who were previously excluded from the practice of statutory audits. However, it is important to emphasise that the introduced audit reforms did not impact on the functions which auditors were required to perform. In other words, the legal framework under which SOL operated formally remained intact.

As was shown, the liberalisation proved a very contentious issue and met severe resistance by SOL and the parties which opposed the reform (mainly the political parties of the opposition, most of the press and the academic community, peak labour associations, etc.). All parties involved in the debate concurred that the liberalisation would have a great impact on the behaviour of statutory auditors and, generally, on the practice of accountancy. However, there was complete disagreement about the quality and direction of the impact of liberalisation. The main argument advanced by those who opposed the liberalisation was that, in the new competitive environment, audited companies would be set free from any essential audit. Auditors under the new arrangements, it was contended, would tend to serve the interests of their clients rather than the 'public interest', as auditors of SOL were assumed to do. In contrast, EPEL, SELE, SEV (the Confederation of Greek Industries), and the government argued that competition in the audit market would greatly upgrade the quality of audits, the reliability of audit reports, and the overall standards of accounting practice in Greece.

One of the themes of this study was to make an empirical inquire into the impact of the liberalisation on auditor behaviour. The subject matter of the empirical research was set to survey and critically interpret the views of individual auditors, financial executives, and users of audit reports and other parties interested in company auditing as to whether the liberalisation of the auditing profession had any impact on the emphasis accorded by practitioners to the performance of various audit functions.

The perceptions of auditors and corporate financial executives were elicited by means of an anonymous and self-administered mail questionnaire. The administration of the mail instrument was preceded by a telephone contact with each respondent. This contact principally aimed at clarifying the purpose and nature of the research to respondents. The field research for the mail survey lasted for almost five months, from 20 December 1994 to 10 May 1995 (see figure A5.1 in the appendix for the chronology of events). As a supplement to the mail survey, a second research strategy was used which entailed carrying out a number of semi-structured focused interviews with members of user groups of audited financial statements and other knowledgeable individuals. Personal interviews were also performed with a number of auditors and corporate financial executives who participated in the mail survey. All interviews were conducted from mid-September to mid-October 1995, after the mail survey data had been processed and analysed. The timing of the interviews enabled the discussion of key mail survey findings with interviewees. Generally, the empirical research was carefully designed and implemented so as to collect high quality data. Particular attention to research design and implementation was felt necessary, due to the political nature and sensitivity of the subject matter of this study.

3. Research Participants and Sampling Design

3.1 The Total Design Method for Mail Surveys

In designing and administering the mail survey the researcher consciously attempted to follow the suggestions and instructions of the Total Design Method (TDM) advanced by Dillman (1978). This method aims at collecting high quality data and can be described as a set of step-by-step procedures which are divided into two main components: questionnaire construction and survey implementation. The TDM (also termed Total Survey Design) means that when designing a survey appropriate attention and thought should be given to all its aspects: the quality of sampling parameters (such as sampling frame, size, design, and response rate); the appropriateness of questions; and the quality and mode of data collection. These factors comprise an interrelated set of issues which could potentially influence the quality of the

survey data (Fowler, 1993, p. 142). It is also suggested that the researcher should always consider trade-offs between costs and methodological rigour, and should report circumstances concerning the administration of the research which could possibly affect the error level of the research data (Fowler, *ibid.*).

3.2 Mail Survey Participants

In the mail survey of this study the views of auditors and financial executives of audited companies were elicited. These two classes of participants were considered to be in a position to have obtained a first hand understanding of the Greek auditing practice. In the Greek context the controller (or sometimes the chief financial executive) is the individual who has responsibility for all the functions performed by the accounting department and has, *ex-officio*, the responsibility for the external audit function. He or she is a company employee and is the person with whom the incumbent auditor discusses all important issues arising in the course of an audit, including the auditor's report. In short, within an audited company the controller or chief financial executive has the best knowledge of auditors' behaviour (informal interviews with one academic, two certified accountants, and two financial executives, 5 and 6 October 1994).

Before describing the sampling design of the mail survey the population from which the samples of respondents were drawn should be defined. The sample of financial executives were drawn from the population of companies under statutory audits. As figure A5.2 reveals (see appendix), the liberalisation on the auditing profession had been legislated as early as the auditing period for the financial year 1992. In other words, by the time this survey was conducted (April-May 1995), almost three auditing periods under liberalisation had elapsed (financial years 1992, 1993 and 1994). To be included in the sample, a company had to have at least three years under statutory audit before the liberalisation. Consequently, eligible companies were those who came under statutory audit as early as financial year 1989 and remained so to the date of this survey (financial year 1994).

In relation to the sample frame of auditors a similar requirement was placed that all participants had entered the profession by 1990, thus having a minimum of five years of experience as of December 1994. This precondition aimed at ensuring that respondents had sufficient practical experience of auditing, both before and after the liberalisation.

3.3 Mail Survey Sampling Design

A disproportionate stratified random sampling design was used for both the populations of companies (financial executives) and auditors. For each population 500 sampling units were drawn. The sampling design for companies entailed the division of the population into five strata in total. The first three strata were insurance companies¹ (listed or not), banks (listed or not), and listed companies on the Athens Stock Exchange (except for insurance and banks). These three groups (hereinafter type A companies) were assumed to comprise 'public interest companies' and, given their significance, were surveyed 100%. The last two strata (hereinafter type B companies) were the top 100 large non-listed companies in terms of total assets (excluding type A companies) and all other non-listed companies. For the last group, other non-listed companies, a simple random sample was then drawn so as to identify a total of 500 companies.

In relation to auditors, three main professional groups in the post liberalisation period may be identified: SOL SA, EX-SOL², and SELE. In addition, within each of the professional groups two subgroups may be discerned. First, certified auditors (CAs), and second, articulated and assistant CAs. Thus, there are six strata in total, two for each of the three professional groups of auditors. Certified auditors of all three groups were surveyed 100%, while for article and assistant auditors a proportionate stratified random sample was drawn, so as to have 500 auditors in total in the sample.

¹In Greece all insurance companies are subject to statutory audit so it was decided to include in the sample only the 'large companies' using the classification of the Fourth EEC Directive.

²As was explained, following the liberalisation of the auditing profession in 1992, members of SOL split into two parts. The majority of them stuck together and established SOL SA, a private audit company. However, number of members - EX-SOL - broke away and established small independent practices.

The procedures by which the effective size of each of the strata was defined and the samples drawn are described in detail later in this chapter. The effective size of each stratum and the corresponding sample size for companies (financial executives) and auditors are presented in table 5.1 and 5.2 respectively. The sample sizes for both financial executives and auditors are generally deemed satisfactory in both absolute and relative terms. In absolute terms sample sizes are satisfactory, as there is a sufficiently large number of respondents in each group. In relative terms, the samples drawn were arguably representative of their respective populations.

Table 5.1: *Survey Data for Financial Executives*

<u>Type of Company</u>	<u>Stratum Size</u>	<u>Sample Size</u>	<u>% Covered</u>
Insurance Companies	51	51	100.00
Banks	19	19	"
Listed Companies	98	98	"
Large Non-Listed Companies	86	86	"
Other Non-Listed Companies	1412	246	17.42
Total	1666	500	30.01

Note. For the first four groups the reported stratum size is the effective, that is after excluding all companies to which a questionnaire could not be posted (see table 5.4). For the last group (other non-listed companies) the reported figure is the total stratum size.

Table 5.2: *Survey Data for Auditors*

	<u>Stratum Size</u>	<u>Sample Size</u>	<u>% Covered</u>
<u>Certified Auditors (CAs)</u>			
SOL SA	173	173	100.00
EX-SOL	40	40	"
SELE	60	60	"
<u>Articled & Assistant CAs</u>			
SOL SA	236	117	49.67
EX-SOL	70	35	"
SELE	151	75	"
Total	730	500	68.49

Notes. 1) For the three strata of certified auditors (CAs) the reported stratum size is the effective, that is after excluding all auditors to whom a questionnaire could not be posted (see table 5.7). For articled and assistant CAs the reported figure is the total stratum size.
 2) Five certified auditors and 12 articled and assistant auditors classified in this table as EX-SOL (stratum size column) were employed by international accounting firms run by SELE members. Of this category of EX-SOL auditors, all five certified auditors and five articled and assistant auditors were included in the sample (sample size column). However, none of these individuals responded to the questionnaire (see table 6.1).

3.4 Participants in Personal Interviews

In addition to questionnaires, personal interviews were also conducted with auditors, financial executives, and users of audit reports and other parties interested in auditing. Details about the interviewees are presented in table 5.3 (see next page). Fourteen auditors and five corporate financial executives were interviewed. The users of audit reports and other interested parties comprised bankers, tax inspectors, financial journalists, knowledgeable individuals, and politicians. The bankers were senior bank executives in corporate lending departments. Two of them came from state-controlled and two from private banks. The tax inspectors were active inspectors at the Tax Offices for trade and industrial companies (known in Greek with the acronym ΦΑΕΕ and ΦΑΒΕ respectively). Individual bankers and tax officials all had very long experience, and comfortably satisfied the requirement of having had at least five years of experience. The financial journalist interviewed was one of the very few journalists who had taken a systematic and long-term interest in the auditing profession. The knowledgeable individuals (two) had in the past served as members of the Supervisory Council of SOL prior to the liberalisation. Of them, one was a retired auditor and the other an eminent technocrat. Finally, the two politicians interviewed had served as ministers in the New Democracy government which liberalised the auditing profession. One was Mr A. Xarchas (Minister of Commerce) and the other Mr S. Manos (Minister of National Economy).

Table 5.3: *Participants in the Personal Interviews*

<u>Auditors</u>	
SOL SA	6
EX-SOL	2
SELE	6
Financial Executives	5
<u>Users and Other Interested parties</u>	
Bankers	4
Tax Inspectors	5
Financial Journalists	1
Knowledgeable Individuals	2
Politicians	2
TOTAL	33

The researcher also intended to interview financial analysts. To this end, a number of mutual funds, stock broker companies, and investment and portfolio management companies were approached by telephone. However, the financial analysts contacted stated that they had less than five years of experience and, as a result, they were not included in the research. It appeared that the profession of financial analyst was in its infancy in Greece. As one analyst explained "... fresh graduates are recruited who stay in the profession for three or four years and then move to more promising posts in industry" (interview, 18 September 1995).

4. Instrumentation

4.1 Research Tools

As has been explained previously, one of the objects of this empirical research was to elicit and examine the perceptions of company financial executives and auditors as to whether the liberalisation of the auditing profession impacted on the emphasis which auditors gave to various audit functions. To this end, use of an anonymous and self-administered mail questionnaire was made. Supplementarily, the views of a small number of members of user groups were also surveyed through personal interviews.

The use of survey methods to elicit the views of respondents in relation to past experience, perceptions or attitudes is a mainstream approach in the social science research, and has been extensively used in the fields of psychology, sociology, politics, and education (Kerlinger, 1986; Nachmias and Nachmias, 1992). In the realm of accounting, and more specifically auditing, the use of survey methods (such as mail questionnaires and personal interviews) by both academic and professional literature has long produced a large volume of work in areas such as auditor independence, the audit expectations gap, and the functions which corporate audit performs in society (see Gwilliam, 1987).

Further, mail questionnaire and personal interview type of research design in accounting has been used in a number of countries with different traditions in accounting, or different cultures

and legal systems, such as USA, Canada, Australia, New Zealand, UK, Spain, Germany, South Africa etc. In Greece, it would appear that the current study was the first to use mail questionnaires and personal interviews to investigate the auditing profession.

In surveying the views of financial executives and auditors the use of mail questionnaires was preferred. Mail questionnaire is a research tool particularly suitable for medium and large scale research projects, due to its relatively low cost and ease of administration. In addition, both financial executives and auditors have a first hand knowledge of audit practice based on personal experience, and are considered capable of answering standard specific questions. However, there is another very important reason for the use of mail questionnaires. It solves the problem of anonymity for respondents. Anonymity was felt to be a very important factor for achieving a higher response rate and more bias-free responses, as this inquiry touched on delicate issues concerning the vested self-interests of auditors and audited companies. The format and the wording of the questionnaire was such that respondents were asked to evaluate, on a 7-point Likert scale from -3 to +3, whether following the liberalisation auditors gave³ less, the same, or more emphasis to each audit function.

User groups of audited financial statements generally have an indirect relation to the conduct of a corporate audit than auditors or auditees. Users of published audit reports do not personally experience audit practices and their perceptions of auditor behaviour are presumably based on the outcome of corporate audits (published auditors' reports), and other public or private information. As a result, they are considered to be capable of answering general rather than specific questions regarding the impact of the liberalisation on auditor behaviour. User groups are also generally considered to have different and sometimes opposing interests in corporate audits compared to auditors, audited companies or financial executives. Lack of anonymity does not appear to present a problem for user groups so focused personal interviews, relatively unstructured in nature, was chosen as an appropriate research tool.

³A negative marking (-) indicates less emphasis, a zero (0) indicates no change in emphasis, and a plus (+) indicates more emphasis.

4.2 Mail Questionnaire Items

Having defined the objective of the survey, the next step was to design a suitable survey instrument to achieve optimally accurate and reliable answers. This task involves three basic steps (Fowler, 1993, p. 94):

- 1) selecting specific research questions;
- 2) pre-testing them to make sure that they can be asked and answered as planned;
- 3) putting them into a form that maximises ease of handling for both the respondents and the researcher.

The individual items of the mail instrument of this study were developed by the researcher from a detailed review of the audit framework in Greece. A total of 23 questions were identified, presented in figure A5.3 (in the appendix). Each question represents a perceived audit function in Greece. Functions 1 to 20 are ordinarily performed by auditors in order to express an opinion on a set of company financial statements (hereinafter 'ordinary' audit functions). Three particular sources were used to identify the 'ordinary' audit functions: company legislation (Law 2190/1920); the legislation which governed the establishment and operation of SOL (Law 3329/1955 as amended); and the auditing standards and auditing guidelines promulgated by SOL. It is important to emphasise that carrying out these functions is generally binding for auditors as they constitute part of the legal framework of auditing. Functions 21 to 23 are related to the provision of Management Advisory Services (MAS) to audited companies and their performance is not statutorily binding on auditors. These functions were identified from the discourses which occurred during the struggle over liberalisation, especially during the period 1990 to 1993.

4.3 Questionnaire Construction

In constructing the individual questions contained in the mail questionnaire the general guidelines prescribed in standard research methodology textbooks were followed (Kerlinger, 1986; Nachmias and Nachmias, 1992; Fowler, 1993). There is a broad consensus in the literature that in constructing a questionnaire one should avoid leading, threatening or double-

barrelled questions, and adopt a concise and unambiguous wording. The process of building the questionnaire⁴ of this study went through the following steps:

Stage One. Thirty five tentative audit functions were identified and drafted in Greek from an extensive review of the legal framework of auditing in Greece, and the arguments advanced for and against liberalisation. In addition, a cover letter and instructions to respondents for filling the questionnaire were drafted;

Stage Two. The tentative list of functions was translated into English for a preliminary discussion and debate with the supervisors. At this stage 15 functions were either deleted or merged, two were split, and the ordering of four functions on the questionnaire was changed. The result was that the final questionnaire contained 22 audit functions. The cover letter and the instructions page were also refined;

Stage Three. A Greek version of the list of 22 functions, along with the cover letter and the instructions page, was analytically discussed in Greece with six persons⁵ very knowledgeable about the intricacies of the Greek auditing profession (21 to 28 January 1995). This process resulted in two functions being split and one deleted, thus leaving a total of 23 functions. The ordering of two functions on the questionnaire was also changed while the wording of a number of functions as well as the phrasing and structure of the cover letter and the instructions page were improved to take account of the Greek audience. In addition, it was found that by adding to each question the standard introduction: "*After the liberalisation of the auditing profession do external auditors give the same, more or less emphasis to...?*" significantly increased the understandability of the instrument. At this stage it was also suggested to the researcher that, because of the political nature of the subject matter and the associated financial interests, there was a possibility that respondents might either under- or over-report on certain functions. This limitation is acknowledged by the researcher later in this chapter. Another issue that was resolved at this stage was whether auditors should be asked to base their answers on their personal behaviour alone or whether they should be asked to answer according to what, in their opinion, the generality of statutory auditors did. After some discussion and debate all interviewees unequivocally supported the latter alternative, as a means for reducing under/over reporting in cases of contra-normative/socially desirable questions;

Stage Four. The list of 23 functions was translated into English by the researcher and reviewed by the supervisors;

⁴See figure A5.1 for the chronology of events.

⁵Two of them were auditors from SOL, one was auditor from SELE, and three were financial controllers.

Stage Five. The questionnaire, along with a cover letter and an instructions page, was then distributed for pre-testing to ten controllers and ten auditors (30 January 1995). The respondents were approached by phone, were informed that this was a pre-test of an academic study and were specifically asked for their critical analysis of all aspects of the questionnaire such as: question wording; question order; redundant questions; missing questions; poor scale items and inappropriate; and inadequate or confusing response categories; (Bailey, 1978, p. 130). Particular attention was paid by the researcher to whether respondents perceived the study to present any threat or opportunity to them, as the intra-professional conflict over the organisation of the profession had not yet ended. All persons who received the questionnaire professed themselves able to understand the questions being asked and responded easily to them on the scale provided. The only criticism came from two members of SELE who noted that their perceptions were not based on personal experience, as they had not been statutory auditors prior to liberalisation. This however, is an acknowledged limitation of the research design as explained later. This stage of the pre-testing resulted only in minor changes of the demographic section of the instrument, the cover letter, and the instructions page.

The questionnaire basically comprised two parts; the audit functions and the demographics. The main part of the questionnaire (questions 1 to 23 - the audit functions) was, in essence, the same for all respondents. The only difference was that auditors were asked to make their judgement separately in respect of type A companies (listed companies, banks, and insurance companies), and type B companies (any other kind of companies). Further, auditors and financial executives received a common cover letter and instructions page, with appropriate wording to differentiate the group identity of the respondent.

4.4 Validity of the Mail Instrument

Arguably the mail survey research instrument of this study has a high face validity, as its items are directly related to specific provisions in Greek legislation. These provisions have been in force for a considerable period of time and their meaning has been clarified in practice. Face validity is a property required of a research instrument and concerns the extent to which the instrument measures what it appears to measure, according to the researcher's subjective assessment (Nachmias and Nachmias, 1992, p. 158). The instrument also appears to be quite satisfactory in terms of sampling validity in the sense that the audit functions which are

included in the instrument arguably constitute a representative sample of their population (Kerlinger, 1986, p. 417). Sampling validity was mainly secured through an exhaustive and vigilant examination of the legal framework of auditing in Greece. Reassurance about the instrument's face and sampling validity, also known under the label content validity, was also gained by asking other competent persons to judge the content of the instrument's items (ibid., p. 418). This procedure was performed during the pre-testing.

Another aspect of validity is internal validity. This form of validity refers to the extent to which any change in the dependent variable - auditors' behaviour in relation to the performance of specific audit functions in Greece - can be causally related to the independent variable - the liberalisation of the auditing profession (see Nachmias and Nachmias, 1992, p. 106). The discussion of the development of the Greek auditing profession in the previous chapters has shown that the liberalisation was the only change introduced in the framework of statutory auditing in Greece prior to and during the conduct of this survey. Thus, any change in auditor behaviour in relation to the performance of various audit functions could be safely attributed to the institution of liberalisation. Further assurance about internal validity was also gathered from a series of informal interviews with a group of five persons very knowledgeable about the state of affairs of the Greek auditing profession. The interviews were undertaken during the pre-testing of the questionnaire and the interviewees comprised two certified auditors of SOL, one certified auditor from SELE, one academic, and one retired certified auditor who is still very active in the affairs of the Greek auditing profession.

4.5 Personal Interviews

As has been explained, personal interviews in this thesis were conducted with auditors, corporate financial executives, and users of audit reports and other parties interested in company auditing.

The views of auditors and financial executives in relation to the basic research question, i.e. how the liberalisation impacted on the emphasis which auditors gave to various audit

functions, were elicited through the mail questionnaire survey. The purpose of interviewing members of these two groups, in addition to administering the mail instrument, was to examine their views in greater depth and try to provide insights to their responses given in the mail survey. The interviews were relatively unstructured although interviewees were asked to explain and justify their responses to the mail survey. Then the results of the mail survey were presented to the interviewee, who was then asked to offer any comment thereon.

User groups (bankers, tax-inspectors, financial journalists, individuals knowledgeable about the state of the Greek auditing profession, and politicians) were interviewed in order to elicit their views as to how the liberalisation impacted on auditors behaviour in relation to various audit functions. The intention behind interviewing members of these groups was to elicit the views of people who are assumed to be more objective compared to auditors or corporate financial executives, as they are not directly involved in the audit practice. Interviews with bankers and tax inspectors were relatively unstructured, although in each case an attempt was made to cover the main topic areas of the mail questionnaire. The basic steps of the interview plan for bankers and tax inspectors is presented in figure A5.6 (in the appendix). Finally, the interview with the financial journalist, the two knowledgeable individuals, and the two politicians were rather a general discussion on the state of the Greek auditing profession.

5. Mail Survey Procedures

5.1 Approach to the Mail Survey

According to the research design for the mail survey the researcher had a personal telephone contact with every participant in the survey prior to the actual posting of the questionnaires. This means that one thousand participants were personally identified and contacted. The task was particularly difficult for companies as the researcher had first to find out the name of the appropriate person (controller or chief financial executive) of each company.

There are three basic reasons for undertaking this time-consuming and costly procedure. First, to avoid posting instruments to extinct participants or wrong addresses. Second, to achieve a higher response rate (lower non-response bias), as a personal contact with respondents is widely believed to yield better results (Dillman, 1983; Nachmias and Nachmias, 1992). The third and most important reason was to explain and discuss the nature and purpose of the research with each individual respondent, with the object of encouraging them to answer the questions as truthfully and sincerely as possible. This was felt necessary due to the political nature of the subject matter and associated economic interests and organisational affiliations of respondents.

5.2 The Sample of Companies (Corporate Financial Executives)

The researcher, in trying to compile the list of eligible companies, attempted to gain permission to use the electronic database of SOL. However, this attempt was not successful as the Supervisory Council of SOL implicitly refused to co-operate (letter sent to the researcher 1112/4/31-10-1994). Therefore, the researcher had to gather the data elsewhere. By January 15 a printout of the list of companies under statutory audit for the financial year 1989 with full postal addresses and telephone numbers were given to the researcher by an anonymous source. The corresponding list for the financial year 1994 was obtained from another anonymous source in electronic form. The two lists were compared to check for those companies which appeared in either of the lists but not in the other. Thus a new list containing all companies which remained under statutory audit throughout the period financial year 1989 to 1994 was created, a total of 1,739 eligible companies.

To identify which companies belonged to each of the five groups (insurance, banks, listed, the top 100 large non-listed companies, and other non-listed companies) the *ICAP Greek Financial Directory* was used. The details of the selection procedure are presented in table 5.4. The result of this process was that 51 insurance, 19 banks, 98 listed, 86 large non-listed, and 246 other non-listed companies were included in the sample, in total 500 companies (see table 5.1).

Table 5.4: *Sample Selection for Financial Executives.*

Table 5.4A: *Insurance Companies*

Number of large (Fourth EEC Directive) insurance companies	56
Refused to participate	(1)
The financial executive participated in the survey for an affiliated company	(4)
Number of insurance companies in the final sample	51

Note. Data for the financial year 1989 from the *ICAP Greek Financial Directory 1991*.

Table 5.4B: *Banks*

Number of large banks (using the criteria of the Fourth EEC Directive)	39
Banks not publishing financial statements in Greece (branches of foreign banks)	(20)
Number of banks in the final sample	19

Note. Data for the financial year 1989 from the *ICAP Greek Financial Directory 1991*.

Table 5.4C: *Listed Companies*

Listed companies 31-12-1992	132
Companies which went public during 1992	(6)
Suspended trading	(6)
Dropped out 31-12-1994	(4)
Insurance (included separately)	(4)
Banks (included separately)	(14)
Number of listed companies in the final sample	98

Note. Data from the *Athens Stock Exchange, Annual Statistical Bulletin 1992*.

Table 5.4D: *Large Non-Listed Companies*

Initially selected companies	100
Were in liquidation or had dropped out 31-12-1994	(6)
Refused to participate	(3)
Did not participate for other reasons	(5)
Number of large non-listed companies in the final sample	86

Note. Data for 1991 from the *ICAP Greece in Figures 1993*. Insurance, banks, and listed companies were first deleted, as these categories were sampled separately.

Table 5.4E: *Other Non-Listed Companies*

Number of eligible companies for the stratum	1412
Initially selected at random	257
Refused to participate	(7)
Contact proved impossible	(4)
Number of other non-listed companies in the final sample	246

5.3 The Auditor Sample

In order identify the population of auditors a list of the names, ranks, full postal addresses and telephone numbers of all auditors of SOE as of February 1994 was obtained from the Supervisory Council of SOE. By processing the data contained in this list the sampling frame of 741 auditors was derived (see table 5.5). A break down of the sampling frame by rank and professional group (SOL SA, EX-SOL, and SELE) is presented in table 5.6.

Table 5.5: *SOE Membership as of February 1994 and Sampling Frame*

Number of	Total	In Voluntary Temporary Suspension	Entrants after 1990	Sampling Frame
Certified Auditors (CAs)	290	(6)	–	284
Articled and Assistant CAs	629	(41)	(131)	457
Total	919	(47)	(131)	741

Source: SOE archives

Table 5.6: *Breakdown of Auditors Sampling Frame by Rank and Professional Group*

	Certified Auditors (CAs)	Articled and Assistant CAs	Total
SOL SA	180	236	416
EX-SOL	42	70	112
SELE	62	151	213
Total	284	457	741

Source: SOE archives

The sampling design for auditors entailed that all auditors at the rank of Certified Auditor (CAs), irrespective of professional group, be contacted, thus having a 100% sampling. Then, a proportionate stratified random sampling was applied to articled & assistant CAs from SOL SA, EX-SOL, and SELE, so that the total number of auditors surveyed was 500. Details for selecting certified auditors (CAs) are presented in table 5.7. In the final sample, 173 CAs came from SOL SA, 40 from EX-SOL, and 60 from SELE; in total 273 individuals. In relation to the rank of articled and assistant auditors, details of the sample selection are presented in table 5.8. As is shown, 117 auditors came from SOL SA, 35 from EX-SOL, and 75 from SELE; in total 227 individuals.

Table 5.7: *Details of Sample Selection for Certified Auditors (CAs)*

	sol sa	ex-sol	sele	total
Total number in the sampling frame	180	42	62	284
In-patient	(3)	–	–	(3)
Invalid or unknown address	(1)	(1)	–	(2)
Refused to participate	(3)	(1)	–	(4)
Had died	–	–	(1)	(1)
Had left the profession	–	–	(1)	(1)
Number of CAs in the final sample	173	40	60	273

Table 5.8: *Sample Selection for Articled and Assistant Certified Auditors (CAs)*

	<u>sol sa</u>	<u>ex-sol</u>	<u>sele</u>	<u>total</u>
number of auditors conducted randomly	119	37	93	249
invalid or unknown address	(2)	(1)	(3)	(6)
maternity leave			(2)	(2)
had left the profession			(12)	(12)
refused to participate		(1)	(1)	(2)
number of auditors in the final sample	117	35	75	227

5.4 Mailing and Follow Up Process

The mailing of the research instrument took place on 21 March 1995. The mail procedures used in this study followed the directions of the Total Design Method (TDM) for mail surveys (Dillman, 1978 and 1983). Cover letters were printed on Edinburgh University letterhead stationary, each bearing the researcher's original signature. The address of the researcher and the respondents on mailout envelopes, as well as the researcher's address on return envelopes were all printed. Mailout envelopes were posted at a first class postage rate. For the return mail it was arranged with the Post Office so that postage was paid by the researcher only for the actually return questionnaires. A clear standard indication "WITHOUT POSTAGE - THE RECIPIENT PAYS FOR POSTAGE" was printed on the return envelopes, according to the Post Office regulations.

Follow up procedures of this research consisted of a second telephone contact between the researcher and research participants. This contact had three objectives in mind. Firstly, and most importantly, to encourage respondents to participate by giving explanations, answering questions, and generally by clarifying any aspect of the survey. Secondly, to serve as a reminder. Finally, to identify cases where a replacement instrument was needed. Follow up calls started on 3 April (end of week 2). Summary data of the follow up procedure are shown in table 5.9. The geographical location of respondents to the mail survey is shown in table 5.10.

Table 5.9: *Particulars of the Follow Up Procedure.*

	Auditors			Financial Controllers
	<u>SOL SA</u>	<u>EX-SOL</u>	<u>SELE</u>	
Contact proved impossible	9	4	5	16
Did not want to participate	2	11	1	5
Refused to participate for lack of time	2	2	4	13
Would answer after the end of the busy period (within May or early June)	15	3	5	45
Declined to participate because they did not practice statutory auditing	–	–	5	N/A.
Needed replacement questionnaires	28	5	12	25

Table 5.10: *Geographical Location of Mail Questionnaire Respondents*

	<u>Prefecture of Attica (Athens)</u>	<u>Rest of Country</u>	<u>Total</u>
Financial Executives	442	58	500
Auditors	484	16	500
Total	926	74	1000

6. Statistical Analysis of Mail Survey Data

6.1 Use of Nonparametric Statistics

It has become established knowledge that, when the underlying assumptions are met, the use of standard parametric statistical tests is the optimum method for the analysis of quantitative data (Siegel and Castellan, 1988; Gibbons, 1993). However, when one or more key assumptions of the parametric model are not satisfied, use of nonparametric statistical techniques should be preferred (ibid.).

The research instrument used in this mail survey was based on a seven-point Likert scale. A Likert scale is a typical example of the ordinal⁶ level of measurement. However, when the

⁶ The ordinal level of measurement occurs when the observations of one variable can be ranked on the basis of the > relation ('greater', 'higher', 'more desired', and so on, according to a scale). However, the numbers of an ordinal scale do not indicate that the intervals between them are equal, nor do they indicate absolute quantities.

ordinal level is used, one key assumption of the parametric model is violated as the measurement is at a level lower than the required interval⁷ level. As a result, for the analysis of the data of this mail survey nonparametric or distribution free statistical techniques are appropriate. The techniques are distribution free in the sense that the sampling distribution of the test statistic does not depend on the specific distribution of the population from which the sample is drawn. This has the advantage that the assumption of normality required for valid parametric tests can be relaxed in the nonparametric context.

It is also important to emphasise that the three nonparametric tests which were utilised in this thesis (Kruskal-Wallis analysis of variance, Mann-Whitney two sample U-test, and Wilcoxon one sample test) are generally very good alternatives to standard parametric tests, even when the assumptions of the parametric tests are met. All three tests are, loosely speaking, 95% powerful and efficient, compared to the most powerful equivalent parametric test (F-test for Kruskal-Wallis, and *t*-test for both, Mann-Whitney and Wilcoxon tests, see Siegel and Castellan, *ibid.*, pp. 214, 137, and 94 respectively). This means that, in terms of power and efficiency, little, if any, is lost by using nonparametric tests, while much may be gained whenever the assumptions of the parametric model are not satisfied.

6.2 Measure of Central Location

Whenever the ordinal level of measurement is used the median seems to be the most appropriate measure of central location (Siegel and Castellan, 1988). The median is a positional measure located halfway between the smallest and the largest observation, thus dividing the distribution into two equal parts. This statistic, by definition, is understood to capture the central tendency of the distribution. In the context of this thesis the median may be used to answer the question whether a group of respondents perceived any change in the emphasis which auditors gave to various audit functions, following the liberalisation of the Greek auditing profession.

⁷The interval level of measurement has been achieved if, in addition to being able to rank a set of observations in terms of the > relation, one also knows the exact distance between each of the observations, and this distance is constant.

As explained, the median is traditionally defined as the middle observation of a distribution. However, the median estimated and reported in this thesis is differently defined as the centre (median) of the pairwise averages, known as the Walsh averages of a distribution. The Walsh averages are the averages of all possible pairs of values including each value with itself (Hollander and Wolfe, 1973, pp. 33-34). There are $n(n+1)/2$ Walsh averages for n initial observations. Using mathematical notation the median based on Walsh averages (ϑ) is defined as follows:

- (1) Let Z_1, Z_2, \dots, Z_n be the n observations in a distribution;
- (2) Form the $n(n+1)/2$ averages $(Z_i + Z_j)/2, i \leq j = 1, \dots, n$;
- (3) $\vartheta = \text{median of } \{(Z_i + Z_j)/2, i \leq j\}$.

The median based on the Walsh averages (ϑ) is relatively insensitive to outliers and may differ from the median defined as the middle observation of the initial distribution, unless the distribution is symmetrical (ibid.). Generally, the median based on the Walsh averages is understood to better capture the central tendency of a distribution⁸ compared to the median defined as the middle observation in the cases of an asymmetrical distribution.

A suitable test to see whether the median (ϑ) of a distribution is significantly different from 0 (zero) is simply to estimate the confidence interval based on the Wilcoxon one sample test. Use of the confidence interval approach rather than the classical hypothesis testing of the Wilcoxon signed-rank test is preferable because the latter approach is less powerful. The reason is that when performing the Wilcoxon signed-rank test all observations equal to the hypothesised median are first eliminated and hence the effective sample size can considerably reduced (Gibbons, 1993, p. 30; Minitab Reference Manual Release 10, 1994, p. 12-8).

6.3 Tests for Differences between Groups

Having defined the central location of the distribution for the responses of each group, the next step is to examine whether the views of the respondent groups converge or diverge. Two

⁸A formal discussion of tests for the median using the Walsh averages can be found in Walsh (1949a).

suitable nonparametric tests were employed for this purpose. First, the Kruskal-Wallis (K-W) one-way analysis of variance (ANOVA), and second, the Mann-Whitney two sample U-test.

The K-W ANOVA is based on ranks and is used to determine if k independent samples come from the same population or from identical populations with the same medians (θ), against the alternative that at least two of the k groups differ in central location. The Mann-Whitney two sample U-test (M-W) is also based on ranks and is used to determine whether or not two groups have the same central location. In the Mann-Whitney both a two-sided (\neq) and a one-sided ($>$ or $<$) alternative may be tested.

7. Limitations of the Mail Survey

Survey methods, such as mail questionnaires and personal interviews, have over the years become a mainstream approach to social sciences research (Kerlinger, 1986). As with any other type of research, survey methods have their own merits and weaknesses or limitations. The purpose of this section, however, is only to briefly discuss a few weaknesses or limitations specific to this empirical study. These limitations need to be addressed before the presentation of the research findings, as these findings should be interpreted with any methodological limitations in mind.

There are three limitations specific to this research survey that will be discussed here. Firstly, and most importantly, the subject matter of this study is a politically sensitive issue in which all participants, primarily auditors and auditees, are understood to have vested interests. The existence of material interests in surveys is generally acknowledged as a factor that may introduce bias in the responses.

The second limitation is concerned with the experimental window of the empirical research of this study. It can be argued that the time elapsed between the liberalisation of the auditing profession and the conduct of this research (auditing periods 1992, 1993, and 1994) is not

long enough for the change to be digested and any effect to fully emerge. In addition, the auditing profession was still in flux during the administration of the survey and afterwards (see epilogue in the conclusion). This suggests another potential source of bias, the direction of which cannot be safely speculated.

The last limitation is related to differences in experiences between respondents to the mail survey. Individual auditors coming from SOL (either in SOL SA or in EX-SOL) and financial executives both had personal experiences of statutory audits prior to liberalisation. Members of SELE, however, had not practised statutory auditing prior to liberalisation and, as a result, they did not have a first hand view of statutory audit practice for that period. This is not meant to suggest that SELE auditors were not fit enough to answer the questionnaire, but rather that they seemed to have a different knowledge base on which to frame their answers.

8. Conclusion

The main purpose of this chapter was to present and explain the research design developed to examine the research question: *did the liberalisation of the Greek auditing profession impact upon the emphasis which auditors gave to various of audit functions?* The chapter described in detail how primary research was conducted. The participants in the research, the sampling design, the research instruments used, the administration of the survey, and the statistical techniques employed were the main topics discussed. In addition, this chapter has argued that the design adopted constitutes a valid approach for the specific research problem, and also acknowledges a number of limitations of the empirical research.

APPENDIX

Figure A5.1: Chronology of the Field Research in Greece

I. December 20, 1994 to February 10, 1995

- ◆ The Supervisory Council of SOE was approached and a list of all SOE members was obtained.
- ◆ The data of this list were processed, analysed, and compared with the list of members who came from SOL. The end product of this procedure was that SOE members were grouped by rank (certified auditors vs. articulated and assistant auditors) and professional group (SOL SA, EX-SOL, and SELE).
- ◆ The sampling frame and sampling design for auditors was prepared.
- ◆ The Supervisory Council of SOL was approached for permission to use the electronic database of SOL in order to extract the sampling frame of companies, but this effort proved fruitless.
- ◆ A printout of the list of all companies under statutory audit in 1989 was obtained from an anonymous source.
- ◆ The list of all audited companies for the financial year 1994 was also obtained from another anonymous source in electronic form.
- ◆ By comparing the two lists the sampling population for companies was initially prepared.
- ◆ The research instrument was translated into Greek, discussed and pre-tested with a group of controllers and auditors.

II. February 11 to March 20, 1995

- ◆ The samples of all groups of auditors were drawn and all sample auditors in the research sample were contacted by telephone.
- ◆ The samples of financial executives from all groups of companies were drawn. All respondents were contacted by telephone.

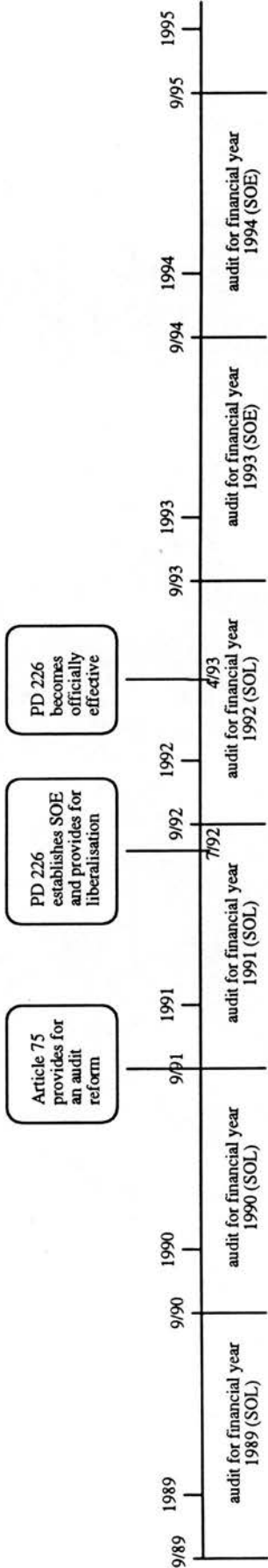
III. March 21 to May 10, 1995

- ◆ One thousand copies of the research instrument (questionnaire) were produced, put in addressed envelopes and posted (March 21, 1995).
- ◆ Answered questionnaires were collected and explanations given to respondents who had questions about the survey.
- ◆ Follow up calls were made to all respondents.
- ◆ Replacement instruments were posted to those who needed one.

IV. September 15 to October 10, 1995

- ◆ Personal interviews were conducted with members of four parties: auditors, financial executives, user groups, individuals knowledgeable about the state of the Greek auditing profession, and politicians.

Figure A5.2: *A Timetable of the Audit Reforms in Greece*



Note. The auditing year starts on September of each calendar year. However, according to legislation statutory audits for most companies are typically completed and auditor reports published by early June.

Figure A5.3: Research Questions (Audit Functions) of the Mail Questionnaire

Q 1: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to protecting the interests of shareholders?

Q 2: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to protecting the interests of other groups such as creditors, potential investors, employees, the state, and the wider public which through the banking system lends capital to companies?

Q 3: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to seeing that the company's annual results have been correctly estimated, in accordance with relevant legislative provisions, in order to prevent the distribution of any fictitious profits?

Q 4: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to seeing that any bank loans received are used for the purpose for which they were granted?

Q 5: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to seeing that the administration of the company has been conducted in accordance with the provisions of the law and the Articles of Association?

Q 6: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to seeing that the administration of the company has been conducted in accordance with the 'the rules of proper administration'?

Q 7: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to making a vigilant and systematic examination of all books of accounts and documents kept by an audited company, and to ascertaining that the company financial statements are properly derived from the company books, in accordance with the provisions of articles 42a to 45 of law 2190/1920?

Q 8: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to ensuring that the provisions of the National General Accounting Plan (or the appropriate sectoral one) are fully and correctly implemented?

Q 9: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to seeing that certain provisions of labour legislation, such as minimum wages and salaries, various allowances prescribed by law, working hours, annual leave, and dismissals, are properly followed?

Q 10: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to seeing that the estimation of national insurance contributions on gross wages and salaries, and the proper transfer of the total estimated amounts to the relevant pension fund?

Q 11: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to the estimation of company tax burdens (such as Income Tax, Value Added Tax, Tax on Salaries and Wages, and other direct or indirect taxes) and the proper payment of the estimated charges to the Public Revenue Office?

Q 12: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to seeing that specific provisions of other legislation (relating to issues such as health and safety, environmental protection, EEC grants or Police Regulations) which affect the operation of an audited company are properly followed?

Q 13: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to ensuring that published financial statements present "the real picture" of the company's capital structure, financial position and results from operations, presenting their opinion in a published report?

Q 14: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to including a relevant remark in his/her published report in cases where published financial statements are not in conformity with the accounting principles and the relevant provisions of the legislation, and this non-conformity results in a material effect on the financial statements?

Q 15: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to communicating significant breaches of tax legislation to the ministry of Public Finance?

Q 16: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to communicating breaches of other legislation to competent public authorities (e.g. Ministry of Commerce, Bank of Greece, etc.)?

Q 17: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to remaining independent and free from influence by the audited company in relation to the selection of the appropriate auditing procedures and the expression of opinion? (Please make your judgement on the basis of whether auditors manage to remain independent and free, and not if they try more or less to do so).

Q 18: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to detecting fraud, embezzlements or illegal acts perpetrated by company employees or management?

Q 19: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to reporting cases of fraud, embezzlements or illegal acts either to management or shareholders, as appropriate?

Q 20: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to reporting cases of fraud, embezzlements or illegal acts to competent public authorities?

Q 21: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to reporting to shareholders on the effectiveness and efficiency of the administration of the corporate affairs by management?

Q 22: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to providing assistance and advice to management so that the audited company can improve their organisation, efficiency, and effectiveness?

Q 23: After the liberalisation of the auditing profession external auditors give the same, more or less emphasis to providing advice to the company on tax, accounting and administrative issues, aiming at promoting the interests of the company?

Figure A5.4: Interview Plan for User Groups

Relatively unstructured interviews, although any attempt was made to cover the topics mentioned in step 4.

Step 1. Identify interviewees.

Step 2. Introduce your self (explain who you are, how the respondent was chosen, build rapport, etc.).

Step 3. Explain the purpose of the interview as follows:

"The purpose of the interview is to discuss the views of the respondent as to whether and how the liberalisation of the auditing profession impacted on the emphasis auditors give to the various audit functions prescribed in Greece".

Step 4. Discuss whether and how emphasis has changed in relation to the topics below. It is understood that individual interviewees may not have or are unwilling to express their views on one or more topic areas.

- ◆ Protect the interests of shareholders (Q1).
- ◆ Protect the interests of other stakeholders (Q2, Q3, Q4).
- ◆ Company administration in compliance with company law, articles of association, rules of proper administration, etc. (Q5, Q6).
- ◆ Audited company has complied with specific legislation:
 - labour legislation (Q9);
 - social security legislation (Q10);
 - National Accounting Plan (Q8);
 - tax legislation (Q11);
 - other legislation (Q12).
- ◆ Search and report fraud (Q18, Q19).
- ◆ Financial statements present the real picture of company financial statements (Q7, Q13).
- ◆ Public communication of audit findings:
 - include remarks in auditor reports when appropriate (Q14);
 - whistle blowing on tax evasion or other issues (Q15, Q16, Q20).

- ◆ Being independent (Q17).
- ◆ Provide MAS to audited companies (Q21-Q23).

Step 5. Discuss issues: MAS related functions vs. other functions, type A companies vs. type B companies, family companies vs. non family companies, group of appointed auditor.

Step 6. Ask interviewees to justify their views for any change / no-change (probing).

Step 7. Ask interviewees what was the main sources of their information, how they have built their views, etc.

Step 8. Ask interviewees to make any comment they wish relevant to the topic of the interview (change in emphasis auditors give to audit functions after the liberalisation).

Step 9. Briefly explain the mail survey results and ask interviewees to comment thereon.

CHAPTER SIX

SURVEY RESULTS

1. Introduction

This chapter reports the results of the empirical research concerning the question whether the liberalisation of the Greek auditing profession impacted on auditor behaviour, in relation to the emphasis which auditors gave to various audit functions. As explained, the empirical research entailed the surveying of perceptions of auditors and corporate financial executives via the administration of an anonymous mail questionnaire. In addition, personal interviews were conducted with a number of respondents to the mail survey. Personal interviews were also used to elicit the perceptions of users of audit reports and other parties interested in corporate auditing.

The material presented in this chapter illustrates the political and self-interested nature of the affairs of the Greek auditing profession. Hence, the discussion validates and highlights one of the four theoretical themes of the critical perspective identified in chapter one: the view that accounting associations are primarily political bodies which attempt to advance and promote their own self-interest agenda. Although the subject of this chapter refers primarily to the empirical research on the impact of liberalisation on auditor behaviour, part of the material presented here (the interviews with the two politicians) also suggests that prevailing political ideology, international economic and political agencies, politicians, and audited companies have played an important role in the development of the Greek auditing profession.

The discussion in this chapter is organised into six topics. First, the response rate achieved in the mail survey is given and a brief profile of respondents is provided. Second, the views of financial executives and of each of the three auditor groups (SOL SA, EX-SOL, and SELE auditors), as expressed in the mail survey, are presented and contrasted. These results show that each respondent group held opposing or, at least, distinctive views as to the impact of liberalisation on auditor behaviour. Third, a description of written and oral comments made by respondents to the mail survey is given, and some evidence is presented which suggests that the divergence in the views of the respondents to the mail survey was the result of self-

interested bias. Fourth, results from the personal interviews with auditors and financial executives are presented, which provide additional evidence that mail survey respondents biased their responses according to their perceived interests. Fifth, the perceptions of users of audit reports and other parties interested in Greek auditing are described. This brings concluding evidence in support of the hypothesis that bias occurred in the responses to the mail survey. Finally, the results of the field research are summarised and some conclusions are drawn therefrom about the impact of the liberalisation of the Greek auditing profession on auditor behaviour.

2. Mail Survey: Coding, Response Rates, and Profile of Respondents

2.1 Coding and Response Rates

As has been explained, there were two classes of participants in the survey: auditors and financial executives from audited companies. As regards to auditors, each respondent was asked to make a separate judgement in relation to two types of companies: type A companies which included insurance, banks, and listed companies (the so called 'public interest companies'), and type B companies which included any other kind of companies. In relation to financial executives, the population of audited companies was initially classified into five groups, as explained in the previous chapter: insurance, banks, listed, large non-listed, and other non-listed. The first three groups correspond to type A and the last two to type B companies.

All returned questionnaires were coded by group of respondents. Each respondent was asked to judge whether auditors, after the liberalisation, gave the same, more, or less emphasis to a number of audit functions than before it. Questions were asked concerning 23 functions and responses were measured on a seven-point Likert scale from -3 to +3. A negative response indicates less emphasis, a positive value shows increased emphasis, and a zero indicates no change in emphasis. The responses were input to computer for further statistical analysis.

As explained earlier, the first 20 audit functions (Q1 to Q20) of the survey instrument are performed in order to express an opinion on a company's financial statements ('ordinary' audit functions). These functions are, as a rule, performed in compliance with the legal framework of corporate auditing in Greece and, as a result, their performance is binding on auditors. The last three audit functions (Q21 to Q23) relate to the provision of management advisory services (MAS) and their performance is not binding on auditors.

The numbers of posted and returned questionnaires along with the estimated response rates for each group of respondents are presented in table 6.1 (see next page). The overall response rates for financial executives and auditors were very similar (50% and 47.6% respectively, excluding three unusable answers by auditors from SELE). Three auditors completed their questionnaires only for type B companies because, as they explained, they lacked audit experience relative to type A companies. There was a variation in the response rate among the groups which comprised the two classes of respondents (financial executives and auditors). In relation to financial executives, the variations need to be considered in the context of the small numbers involved. The most extreme response rates (37.2% and 63.2%) are recorded for the two groups with the smallest population size, financial executives with insurance companies (size 51) and banks (size 19). It is interesting that the four smaller groups of financial executives (insurance, banks, listed, and large non-listed) which combined account for 50.8% of the posted questionnaires (254 posted instruments) have a 49.6% response rate, thus coming very close to the overall 50% response rate of financial executives. It is also worth mentioning that the informal telephone interviews with company financial executives during the follow up process did not provide any hints at an alternative explanation for the variation in the response rates.

Table 6.1: *Response Rates of the Mail Survey.*

	<u>Number of questionnaires</u>		<u>Response</u>
	<u>returned</u>	<u>posted</u>	<u>rate (%)</u>
Financial executives			
Insurance	19	51	37.2
Banks	12	19	63.2
Listed	56	98	57.1
Large non-listed	39	86	45.3
Other non-listed	124	246	50.4
<i>All financial executives</i>	<i>250</i>	<i>500</i>	<i>50.0</i>
Auditors			
<u>Certified Auditors (CAs)</u>			
sol sa	83	173	48.0
ex-sol	12	40	30.0
sele	22	60	36.7
<u>Assistant and Articled CAs</u>			
sol sa	69	117	60.0
ex-sol	15	35	42.9
sele	37	75	49.3
<u>All ranks of auditors included</u>			
sol sa	152	290	52.4
ex-sol	27	75	36.0
sele	59	135	43.7
<i>All auditors</i>	<i>238</i>	<i>500</i>	<i>47.6</i>

Note. All EX-SOL auditors who responded to the survey were employed in EX-SOL audit practices, as none of the EX-SOL auditors employed by SELE audit firms responded to the survey (see note 2 of table 5.2).

In relation to auditors, the data in table 6.1 suggest that there were two types of variation in the response rates. First, there was a variation between the ranks of each group (certified auditors had a lower response rate compared to articled and assistant auditors). Second, there was variation in the response rates of the three auditor groups (SELE, and particularly EX-SOL, exhibited lower response rates than SOL SA).

The differences in the response rates between the ranks of each group of auditors could possibly be related to certified auditors being more heavily engaged in practice compared to assistant and articled auditors. Circumstantial evidence on this issue was gathered during

follow up telephone contacts. Certified auditors typically returned home later than articled and assistant auditors, it was more difficult to contact them and, generally, they appeared much busier than articled and assistant auditors.

Differences in the response rates among the three auditor groups can be attributed to perceived threats (or opportunities) posed (or offered) by participation in the survey for particular professional groups. This issue will be explained later in this chapter, along with a discussion of the deeply political nature of the debate concerning the affairs of the Greek auditing profession.

2.2 A Profile of Respondents

A profile of the respondents to the mail survey is presented in tables 6.2 to 6.5. In relation to financial executives, a breakdown by post held is presented in table 6.2. The majority of this class of respondents were financial controllers (60%) or Chief Financial Executives (CFEs) (33.6%). Table 6.3 contains data which show the duration of the work experience of financial executives. Financial executives appeared to have very considerable experience in statutory audits as they progressed to posts of increased responsibility in relation to accounting (assistant controller, controller, assistant CFE, and CFE), in their last or in a previous employment. By December 1994, all executives in the survey had at least four years of experience in statutory audits and over 96% had at least six years. Further, financial executives had a long working experience in their last employment, which suggests that they were familiar with the company they worked for during the survey. The vast majority of financial executives (over 90%) had at least 4 years in their last employment, and over 60% more than 10 years. Finally, the companies, which financial executives worked for, had been subject to a statutory audit for a long period (see table 6.3). All companies had received statutory audits for at least 6 years, and more than 61% for at least 11 years.

Table 6.2: *Posts Held by Financial Executives in their Companies.*

<u>Post currently held</u>	<u>Frequency</u>	<u>Percent</u>
Assistant financial controller	3	1.2
Financial controller	150	60.0
Assistant Chief Financial Executive	8	3.2
Chief Financial Executive	84	33.6
Other	5	2.0
Total	250	100

Table 6.3: *Experience of Financial Executives and Companies with Audits (% , n=250).*

<u>Years</u>	<u>Experience of financial executives</u>		<u>Companies under statutory audits</u>
	<u>in statutory audits</u>	<u>in last employment</u>	
up to 3	–	9.6	–
4 to 5	3.6	12.8	–
6 to 10	39.2	17.2	38.4
11 to 20	36.0	32.4	31.2
21 or more	21.2	28.0	30.4
Total (%)	100	100	100

- Notes. 1) Experience in statutory audits counts the total period of time the financial executive has worked in one of the four posts of increased accounting responsibility (assistant controller, controller, assistant CFE, and CFE) in the last or in a previous employment.
- 2) Experience in the last employment counts the total period of time for which the respondent has worked in his/her last employment.

In relation to auditors, the total work experience of the various groups and subgroups is presented in table 6.4. The data shown suggest that auditors who participated in this research held considerable professional experience pertinent to their rank. It is important to emphasise, if one is to make any intra-group comparisons, that the experience of auditors from SELE also included professional practice in the wider accounting area prior to liberalisation.

Table 6.4: *Experience of Auditors (%)*

Years	sol sa		ex-sol		sele		all ranks included		
	CAs	other ranks	CAs	other ranks	CAs	other ranks	sol sa	ex-sol	sele
5 to 10	—	84.1	—	93.3	—	54.0	38.1	51.9	34.5
11 to 20	33.7	15.9	8.3	6.7	33.3	46.0	25.7	7.4	41.4
21 or more	66.3	—	91.7	—	66.7	—	36.2	40.7	24.1
n	83	69	12	15	22	37	152	27	59

Notes. 1) The experience of auditors from SELE also included non-statutory auditing prior to liberalisation.

2) Other ranks comprise articulated and assistant auditors.

Finally, the relative work experience of auditors for type A and type B companies is shown in table 6.5. A first comment which can be made on the data contained in table 6.5 is that the auditors who participated in the survey were more familiar with type B company audits.¹ The vast majority of auditors from all groups stated that they had very much or considerable experience in type B companies (98.7% for SOL SA, 100% for EX-SOL, and 96.6% for SELE). In relation to type A companies, 77.6% of SOL SA and 77.8% of EX-SOL auditors also stated that they had very much or considerable experience. In contrast, the majority of SELE auditors (58.6%) stated that they had little or no experience of type A companies.

Table 6.5: *Relative Experience of Auditors for Type A and B Companies (%)*

	sol sa		ex-sol		sele	
	type A	type B	type A	type B	type A	type B
Very much	29.6 (29.6)	64.5 (64.5)	14.8 (14.8)	85.2 (85.2)	5.2 (5.2)	72.9 (72.9)
Considerable	48.0 (77.6)	34.2 (98.7)	63.0 (77.8)	14.8 (100)	36.2 (41.4)	23.7 (96.6)
Little	21.1 (98.7)	1.3 (100)	18.5 (96.3)	—	48.3 (89.7)	3.4 (100)
Not at all	1.3 (100)	—	3.7 (100)	—	10.3 (100)	—
n	152		27		59	

Note. Cumulative percentages in parentheses ().

¹ This could most likely be explained from the fact that from the total 1,666 companies in the sampling frame (see table 5.1 in chapter five) there were 1,498 type B companies (90%), only 168 being type A (10%).

To sum up, the data showed that all the respondents to this survey had a sufficiently long practical experience of statutory audits. Thus, respondents were deemed to be in a position to have an informed view as to whether the liberalisation of the Greek auditing profession had any impact on the emphasis which auditors attached to the performance of various audit functions.

3. Mail Survey: The Views of Respondents

3.1 Financial Executives

Table 6.6 (see next page) presents results from statistical tests of the responses of financial executives. From the data shown in table 6.6 two main conclusions can be drawn. First, there is a striking unanimity among the five groupings (executives from insurance, banks, listed, large non-listed, and other non-listed companies), in relation to the perceived effects of liberalisation. The P-values from running the Kruskal-Wallis (K-W) one-way ANOVA clearly suggest that the null hypothesis (H_0) of equality of medians is maintained at the 0.05 significance level. In other words, the views of the respondents contained in the five company groupings did not appear to be statistically different. As a result, the five company groupings could be treated as a single unified group for further statistical analysis.

The second and most important conclusion that can be drawn from table 6.6 is that financial executives perceived that the liberalisation did not have any significant effect on the emphasis attached by auditors to all 'ordinary' audit functions (Q1 to Q20). The point estimate of the median (ϑ) for these 'ordinary' functions is not significantly different from 0 at the 95% confidence interval (Wilcoxon test). For only two MAS related functions (Q22 and Q23) did corporate executives perceive² a significant positive change in emphasis ($\vartheta=1$).

²Almost identical conclusions were drawn when the means of financial executives' responses were used in place of the medians and the standard parametric one-way ANOVA was run (results of these tests are not reported though).

Table 6.6: *Kruskal-Wallis (K-W) ANOVA for the Five Groups of Financial Executives.*

	<u>description of audit functions</u>	K-W ANOVA P-values	equality of medians at 5%	median (all included n=250)
Q1	protect the interests of shareholders	0,57	accepted	0
Q2	protect the interests of other groups	0,80	"	0
Q3	correct estimation of results to prevent distribution of fictitious profits	0,98	"	0
Q4	proper use of received bank loans	0,75	"	0
Q5	company administration in accordance with the Articles of Association and law	0,90	"	0
Q6	company administration in accordance with the "rules of proper administration"	0,93	"	0
Q7	financial statements are correctly derived from corporate books	0,69	"	0
Q8	correct application of General Accounting Plan (GAP)	0,72	"	0
Q9	provisions of labour legislation are correctly applied	0,44	"	0
Q10	estimation of national insurance contributions and payment of total amounts	0,83	"	0
Q11	estimation of company tax burdens and payment of total charges to the state	0,88	"	0
Q12	provisions of other relevant legislation are properly followed	0,47	"	0
Q13	financial statements present "the real picture" (TFV)	0,44	"	0
Q14	remarks are added to auditor's report when necessary	0,96	"	0
Q15	'whistle blowing' on tax issues	0,98	"	0
Q16	'whistle blowing' on other issues	0,95	"	0
Q17	being independent	0,82	"	0
Q18	detect fraud and illegal acts	0,08	"	0
Q19	report fraud to management/shareholders	0,23	"	0
Q20	report fraud to public authorities	0,68	"	0
Q21	report on effectiveness and efficiency of company's administration	0,17	"	0
Q22	promote effectiveness and efficiency of the company	0,28	"	1
Q23	advice on tax, accounting, and administrative issues promoting company interests	0,07	"	1

Notes. 1) The five groups of financial executives (companies) are: insurance (n=19), banks (n=12), listed (n=56), large non-listed (n=39), and other non-listed (n=124). Median responses (all groups included) on the scale -3 to +3.

2) A few non-zero medians which, however, were not statistically different from zero (Wilcoxon test, $\alpha=5\%$) are reported as zero.

Further, three specific variables which could be related to the perceptions of financial executives on the effects of liberalisation were specifically examined. These variables were: type A vs. type B companies, family vs. non-family companies, and group of appointed auditor.

In order to examine the first two variables (type A vs. type B companies and family vs. non-family companies) the responses of financial executives were respectively classified according to two criteria: executives from type A companies vs. executives from type B companies, and executives from family companies vs. executives from non-family companies.³ Median statistics and results from running the Mann-Whitney (M-W) two sample U-test for each pair of groupings are reported in table 6.7. In relation to type A vs. type B comparison, the two groupings had the same median across all functions with the exception of that in Q21. Further, the M-W results showed that there were only three functions for which the views of the two groups diverged (Q18, Q19, and Q21). For these functions respondents from type B companies had a larger central location, indicating that auditors were perceived to give more emphasis to these functions following liberalisation.

In relation to the family vs. non-family comparison, the two groupings again had the same median across all 23 functions. The M-W test was capable of identifying only four functions of divergence (Q9, Q10, Q16, and Q17). All four were 'ordinary' audit functions and in all cases the responses of financial executives from family companies had a lower central location than non-family, thus indicating a perceived less emphasis.

³Information for this classification was derived from the demographic section of the questionnaire.

Table 6.7: Median Response of Financial Executives: Type A vs. Type B Companies, and Family vs. Non-Family Companies.

description of audit functions	type A vs. type B			family vs. non-family		
	median values		M-W U-test	median values		M-W test
	type A	type B		family	non-family	
Q1 protect the interests of shareholders	0	0	= 0.21	0	0	= 0.90
Q2 protect the interests of other stakeholder groups	0	0	= 0.72	0	0	= 0.11
Q3 correct estimation of results to prevent distribution of fictitious profits	0	0	= 0.94	0	0	= 0.69
Q4 proper use of received bank loans	0	0	= 0.32	0	0	= 0.58
Q5 company administration in accordance with the Articles of Association and law	0	0	= 0.75	0	0	= 0.29
Q6 company administration in accordance with "the rules of proper administration"	0	0	= 0.69	0	0	= 0.54
Q7 financial statements are correctly derived from corporate books	0	0	= 0.47	0	0	= 0.36
Q8 correct application of General Accounting Plan (GAP)	0	0	= 0.27	0	0	= 0.25
Q9 provisions of labour legislation are correctly applied	0	0	= 0.29	0	0	< 0.02
Q10 estimation of national insurance contributions and payment of total amounts	0	0	= 0.86	0	0	< 0.04
Q11 estimation of company tax burdens and payment of total charges to the state	0	0	= 0.71	0	0	= 0.81
Q12 provisions of other relevant legislation are properly followed	0	0	= 0.26	0	0	= 0.26
Q13 financial statements present "the real picture" (TFV)	0	0	= 0.40	0	0	= 0.90
Q14 remarks are added to auditor's report when necessary	0	0	= 0.55	0	0	= 0.23
Q15 whistle blowing on tax issues	0	0	= 0.73	0	0	= 0.42
Q16 whistle blowing on other issues	0	0	= 0.43	0	0	< 0.05
Q17 being independent	0	0	= 0.51	0	0	< 0.02
Q18 detect fraud and illegal acts	0	0	< 0.00	0	0	= 0.44
Q19 report fraud to management/shareholders	0	0	< 0.02	0	0	= 0.20
Q20 report fraud to public authorities	0	0	= 0.34	0	0	= 0.23
Q21 report on effectiveness and efficiency of company's administration	0	0.5	< 0.01	0	0	= 0.69
Q22 promote effectiveness and efficiency of the company	1	1	= 0.38	1	1	= 0.33
Q23 advice on tax, accounting, and administrative issues promoting company interests	1	1	= 0.89	1	1	= 0.24
n	87	163	87 vs. 163	98	146	98 vs. 146

Notes. 1) P-values for two-tail (=) and one-tail (> / <) Mann-Whitney (M-W) tests. The symbols =, >, and < indicate the accepted hypothesis at $\alpha=0.05$.

2) A few non-zero medians which, however, were not statistically different from zero (Wilcoxon test, $\alpha=5\%$) are reported as zero.

3) Six respondents did not indicate whether their company was family or non-family and, as a result, their questionnaires were not used in the relevant test.

4) Original response data on the scale -3 to +3.

For the purpose of examining the third variable, group of appointed auditor, the responses of financial executives were classified into three groupings, based on the group of appointed auditor in the post liberalisation period (SOL SA, EX-SOL, and SELE). Median statistics and results from running the M-W two sample U-test are presented in table 6.8. The medians for the three groupings were all the same but two cases (Q22 and Q23 for SELE), indicating that the perceptions of financial executives were not contingent upon the group of appointed auditor. This conclusion is verified by the results of the M-W test. Comparing the views of financial executives who, post liberalisation, appointed SOL SA vs. those who appointed EX-SOL, there was only one function with statistically significant difference (Q20). The comparison between SOL SA and SELE revealed that for the vast majority of audit functions, financial executives did not appear to perceive a difference between the two auditor groups. There were only six functions with a significant difference. In four of them (Q8, Q11, Q22, and Q23), SOL SA auditors were perceived to give more emphasis, and in the remaining two (Q6 and Q12) less emphasis compared to SELE auditors. Finally, the comparison between EX-SOL and SELE showed four functions of significant difference (Q8, Q20, Q21, and Q22).

Two patterns can be discerned concerning the cases of divergence for the group of appointed auditor variable. First, SELE auditors were perceived to give less emphasis compared to either SOL SA or EX-SOL auditors to the application of the Greek General Accounting Plan⁴ (Q8). Second, SOL SA and EX-SOL auditors were perceived to give more emphasis compared to SELE auditors to two functions relating to providing MAS (Q22 and Q23).

It is also important to note another pattern, common to all groupings of the three examined variables. For these groupings the point estimate of the median was not statistically different from 0 for all 'ordinary' functions (Q1 to Q20). On the other hand, for MAS related functions the median was, as a rule, positive and statistically different from 0.

⁴This was rather expected, as SELE auditors prior to liberalisation were mainly concerned with international accounting standards rather than with the Greek General Accounting Plan.

Table 6.8: *Financial Executives: Median Responses and Mann-Whitney (M-W) tests for Group of Appointed Auditor Effect.*

description of audit functions	median values			M-W tests for appointed auditor effect			
	sol sa	ex sol	sele	sol sa vs. ex-sol	sol sa vs. sele	ex-sol vs. sele	
Q1 protect the interests of shareholders	0	0	0	= 0.54	= 0.19	=	0.15
Q2 protect the interests of other stakeholder groups	0	0	0	= 0.15	= 0.39	=	0.75
Q3 correct estimation of results to prevent distribution of fictitious profits	0	0	0	= 0.88	= 1.00	=	0.90
Q4 proper use of received bank loans	0	0	0	= 0.93	= 0.66	=	0.76
Q5 company administration in accordance with the Articles of Association and law	0	0	0	= 0.25	= 0.47	=	0.71
Q6 company administration in accordance with "the rules of proper administration"	0	0	0	= 0.45	< 0.01	=	0.20
Q7 financial statements are correctly derived from corporate books	0	0	0	= 0.61	= 0.62	=	0.99
Q8 correct application of General Accounting Plan (GAP)	0	0	0	= 0.20	> 0.00	>	0.00
Q9 provisions of labour legislation are correctly applied	0	0	0	= 0.89	= 0.82	=	0.76
Q10 estimation of national insurance contributions and payment of total amounts	0	0	0	= 0.80	= 0.14	=	0.31
Q11 estimation of company tax burdens and payment of total charges to the state	0	0	0	= 0.65	> 0.02	=	0.17
Q12 provisions of other relevant legislation are properly followed	0	0	0	= 0.75	< 0.03	=	0.19
Q13 financial statements present "the real picture" (TFV)	0	0	0	= 0.73	= 0.29	=	0.49
Q14 remarks are added to auditor's report when necessary	0	0	0	= 0.86	= 0.20	=	0.20
Q15 whistle blowing on tax issues	0	0	0	= 0.77	= 0.64	=	0.54
Q16 whistle blowing on other issues	0	0	0	= 0.12	= 0.54	=	0.43
Q17 being independent	0	0	0	= 0.37	= 0.11	=	0.54
Q18 detect fraud and illegal acts	0	0	0	= 0.45	= 0.73	=	0.33
Q19 report fraud to management/shareholders	0	0	0	= 0.26	= 0.63	=	0.14
Q20 report fraud to public authorities	0	0	0	< 0.03	= 0.70	>	0.03
Q21 report on effectiveness and efficiency of company's administration	0	0	0	= 0.49	= 0.13	=	0.10
Q22 promote effectiveness and efficiency of the company	1	1	0	= 0.62	> 0.01	>	0.04
Q23 advice on tax, accounting, and administrative issues promoting company interests	1	1	0.5	= 0.97	> 0.03	>	0.04
n	139	57	51	139 vs. 57	139 vs. 51	57 vs. 51	

Notes. 1) P-values for two-tail (=) and one-tail (> / <) Mann-Whitney tests. The symbols >, =, and < indicate the accepted hypothesis at $\alpha=0.05$.
2) A few non-zero medians which, however, were not statistically different from zero (Wilcoxon test, $\alpha=5\%$) are reported as zero.
3) Three respondents did not disclose the group of appointed auditor and, as a result, their questionnaires excluded from this test.
4) Original response data on the scale -3 to +3.

To sum up, the analysis presented in this section showed that the financial executives perceived that the liberalisation of the Greek auditing profession did not have any impact on the emphasis which auditors gave to 'ordinary' audit functions. For only two functions relating to MAS (Q22 and Q23) did financial executives perceive a significant positive change in emphasis ($\vartheta=+1$). The results also showed that none of the three variables examined (type A vs. type B companies, family vs. non-family companies, and group of appointed auditor) was related to a significant degree, in the perceptions of financial executives, to the emphasis which auditors gave to the various audit functions.

Finally, the relationship between group of appointed auditor and certain structural characteristics of companies is examined in table 6.9. As one could expect, the data shown here suggest that audited companies which were subsidiaries of foreign enterprises or had taken significant loans from abroad tended to appoint auditors from SELE (statistically significant results at $\alpha=0.01$ and $\alpha=0.05$ respectively). In other words, companies which were international from a financial point of view, appointed an international auditor. On the other hand, typical Greek family companies tended to appoint auditors from either SOL SA or EX-SOL (results statistically significant at $\alpha=0.01$).

Table 6.9: *Selected χ^2 Tests: Group of Auditors and Characteristics of Companies*

	capital participation by foreign companies		significant borrowing from abroad	capital participation by the Greek state		family companies
	20% to 49%	50% or more		20% to 49%	50% or more	
sol sa	4 (4)	15 (33)	5 (9)	5 (3)	12 (8)	59 (53)
ex-sol	3 (2)	8 (13)	4 (4)	0 (2)	2 (4)	28 (22)
sele	1 (2)	36 (13)	7 (3)	1 (1)	1 (3)	9 (21)
total	8	59	16	6	15	96
χ^2	1.21	68.01**	5.10*	4.176	2.41	16.01**

Notes. 1) expected frequencies under the null hypothesis of no association in parentheses (). These frequencies were derived from the 235 companies which appointed a sole auditor (130 from SOL SA, 54 from EX-SOL, and 51 from SELE). For the purpose of this test, 12 companies which appointed a member of SELE second auditor (9 after SOL and 3 after EX-SOL) were not considered. These 12 companies were either subsidiaries of foreign enterprises, or had significant borrowing from abroad. For 3 other companies the group of appointed auditor was not available.

2) It is acknowledged that χ^2 tests with an expected frequency smaller than 5 (per cell) are not particularly powerful.

** significant at $\alpha = 0.01$ (critical value = 9.21).

* significant at $\alpha = 0.05$ (critical value = 5.99).

3.2 The Auditor Groups

As has been explained, two subgroups could be discerned within each main auditor group (SOL SA, EX-SOL, and SELE), according to grade. First, certified auditors (CAs) and, second, assistant and articulated CAs. Results from comparing the views of certified auditors vs. assistant and articulated auditors for each group of auditors are presented in table 6.10 (Mann-Whitney test). These results suggest that all three groups were homogeneous in their responses,⁵ as there were only few cases of divergence within each group (certified auditors vs. articulated and assistant auditors).

The degree of homogeneity was greater among SOL SA auditors, with EX-SOL auditors ranked second and SELE auditors last. Further, the degree of homogeneity is higher for type A companies for all three auditor groups. It is also interesting to note that in the cases of divergence within an auditor group, certified auditors always had a higher measure of central location, indicating a more positive view of the perceived effects of liberalisation compared to assistant and articulated auditors.

The high degree of homogeneity found for each of the three auditor groups suggests that the distinction between certified auditors and articulated and assistant auditors could be relaxed for further statistical analysis.

⁵It is noted that the estimated median point was the same between certified auditors and articulated and assistant auditors, across all 23 functions, for all three auditor groups (SOL SA, EX-SOL, and SELE).

Table 6.10: *P-Values for Two-Tail (=) and One-Tail (> / <) Mann-Whitney (M-W) Tests for Rank Effect in the Responses of Auditors.*

description of audit function	TYPE A COMPANIES				TYPE B COMPANIES			
	Certified Auditors (CAs) vs. Assistant & Articled CAs		Certified Auditors (CAs) vs. Assistant & Articled CAs		Certified Auditors (CAs) vs. Assistant & Articled CAs		Certified Auditors (CAs) vs. Assistant & Articled CAs	
	sol sa	ex-sol	sele		sol sa	ex-sol	sele	
Q1 protect the interests of shareholders	= 0.88	= 0.12	= 0.64		= 0.57	= 0.73	= 0.59	
Q2 protect the interests of other stakeholder groups	= 0.68	= 0.16	= 0.98		= 0.78	> 0.04	= 0.61	
Q3 correct estimation of results to prevent distribution of fictitious profits	= 0.46	= 0.16	= 0.96		= 0.14	= 0.64	= 0.37	
Q4 proper use of received bank loans	= 0.80	> 0.04	= 0.86		= 0.75	> 0.03	= 0.18	
Q5 company administration in accordance with the Articles of Association and law	= 0.47	> 0.01	= 0.21		= 0.81	> 0.01	= 0.33	
Q6 company administration in accordance with "the rules of proper administration"	= 0.69	> 0.00	= 0.27		> 0.04	> 0.03	= 0.43	
Q7 financial statements are correctly derived from corporate books	= 0.75	= 0.23	= 0.26		= 0.82	= 0.55	> 0.05	
Q8 correct application of General Accounting Plan (GAP)	= 0.58	= 0.12	= 0.31		= 0.16	= 0.18	= 0.13	
Q9 provisions of labour legislation are correctly applied	= 0.45	= 0.78	= 0.18		= 0.62	= 0.34	> 0.04	
Q10 estimation of national insurance contributions and payment of total amounts	= 0.40	= 0.44	= 0.68		= 0.46	= 0.32	= 0.16	
Q11 estimation of company tax burdens and payment of total charges to the state	= 0.60	= 0.38	= 0.56		= 0.54	= 0.92	= 0.20	
Q12 provisions of other relevant legislation are properly followed	= 0.21	= 0.32	= 0.16		= 0.21	= 0.27	= 0.39	
Q13 financial statements present "the real picture" (TFV)	> 0.02	> 0.00	= 0.61		> 0.03	> 0.02	= 0.87	
Q14 remarks are added to auditor's report when necessary	= 0.35	= 0.84	= 0.92		= 0.10	= 0.21	= 1.00	
Q15 whistle blowing on tax issues	= 0.56	= 0.78	= 0.12		= 0.87	= 0.18	> 0.02	
Q16 whistle blowing on other issues	= 0.67	= 0.37	> 0.01		= 0.99	= 0.15	> 0.00	
Q17 being independent	= 0.10	= 0.16	= 0.68		= 0.13	= 0.21	= 0.48	
Q18 detect fraud and illegal acts	= 0.56	> 0.00	= 0.82		= 0.69	> 0.00	= 0.99	
Q19 report fraud to management/shareholders	= 0.67	= 0.24	= 0.11		= 0.59	= 0.58	= 0.28	
Q20 report fraud to public authorities	= 0.28	> 0.02	= 0.36		= 0.72	> 0.00	= 0.30	
Q21 report on effectiveness and efficiency of company's administration	= 0.54	= 0.60	= 0.45		= 0.33	= 0.61	= 0.80	
Q22 promote effectiveness and efficiency of the company	= 0.11	= 0.22	= 0.68		= 0.14	= 0.30	= 0.49	
Q23 advice on tax, accounting, and administrative issues promoting company interests	= 0.31	= 0.40	= 0.25		= 0.31	= 0.24	= 0.14	
n	83 vs. 69	12 vs. 15	22 vs. 37		83 vs. 69	12 vs. 15	22 vs. 37	

Note. The symbols =, >, and < indicate the accepted hypothesis at the 0.05 significance level.

Median responses of the three groups of auditors for type A and type B companies are presented in table 6.11, along with results from running the M-W test. These tests were performed in order to ascertain whether there were significant differences between the three possible pairs of auditor groups, in relation to the perceived effects of liberalisation. The statistics reported in Table 6.11 suggest that, in contrast to the perceptions of financial executives, there was a considerable variation in the responses given by the three auditor groups.

With reference to the median values for type A companies, SOL SA auditors perceived that the liberalisation had a negative effect⁶ for 16 of the 20 'ordinary' functions, while for the remaining 4 (Q1, Q7, Q11, and Q19) no change in emphasis was perceived. The functions with the largest perceived negative change ($\vartheta=-1$ and $\vartheta=-1.5$) are presumably related to protecting the interests of parties external to audited companies, to public communication of audit findings, and to being independent. For type B companies two more 'ordinary' functions were negatively affected (Q7 and Q11).

However, the magnitude of negative effect on 'ordinary' audit functions for type B companies is considerably larger. It is noted that none of the 'ordinary' functions for both types of companies was perceived by SOL SA auditors to be positively affected. Only for two of the MAS related functions did auditors from SOL SA appear to believe that the liberalisation had a positive effect, for both type A and type B companies (Q22 and Q23). Interestingly, a positive effect for MAS related functions was consistently perceived among all groups of auditors and financial executives.

⁶For ease of reference the term 'a positive/negative effect' for an audit function is used to imply that respondents perceived auditors to give more/less emphasis to this function, following the liberalisation of the auditing profession.

Table 6.11: Median Values and Mann-Whitney (M-W) Two-Tail (=) and One-Tail (> / <) Tests for Differences between Auditor Groups.

	description of audit functions	AUDITORS FOR TYPE A COMPANIES										AUDITORS FOR TYPE B COMPANIES									
		P-values (group comparisons)					P-values (group comparisons)					P-values (group comparisons)					P-values (group comparisons)				
		median values	sol sa	sol sa	ex-sol	vs. sele	median values	sol sa	sol sa	ex-sol	vs. sele	median values	sol sa	sol sa	ex-sol	vs. sele	median values	sol sa	sol sa	ex-sol	vs. sele
		sol sa	ex sol	sele			sol sa	ex sol	sele			sol sa	ex sol	sele			sol sa	ex sol	sele		
Q1	protect the interests of shareholders	0	0	1		< 0.00	< 0.00	< 0.00	< 0.01			0	0	1		< 0.01	< 0.00	< 0.00	=	0.11	
Q2	protect the interests of other groups	-1	0	1		< 0.00	< 0.00	< 0.00	< 0.00			-1.5	0	1		< 0.00	< 0.00	< 0.00	<	0.00	
Q3	correct estimation of results to prevent distribution of fictitious profits	-0.5	0	1		< 0.00	< 0.00	< 0.00	< 0.00			-1.5	0	1		< 0.00	< 0.00	< 0.00	<	0.00	
Q4	proper use of received bank loans	-1	0	0		< 0.01	< 0.00	< 0.00	< 0.00			-1.5	0	0		< 0.00	< 0.00	< 0.00	<	0.00	
Q5	company administration in accordance with the Articles of Association and law	-0.5	0	0.5		< 0.00	< 0.00	< 0.00	< 0.00			-1.5	0	0.5		< 0.00	< 0.00	< 0.00	<	0.00	
Q6	company administration in accordance with "the rules of proper administration"	-0.5	0	1		< 0.00	< 0.00	< 0.00	< 0.00			-1.5	0	0.5		< 0.01	< 0.00	< 0.00	<	0.00	
Q7	financial statements are correctly derived from corporate books	0	0	1		< 0.00	< 0.00	< 0.00	< 0.00			-1	0	0.5		< 0.01	< 0.00	< 0.00	<	0.00	
Q8	correct application of General Accounting Plan (GAP)	-0.5	0	0.5		< 0.00	< 0.00	< 0.00	< 0.00			-1	0	0.5		< 0.00	< 0.00	< 0.00	<	0.00	
Q9	provisions of labour legislation are correctly applied	-1	0	0		< 0.00	< 0.00	< 0.00	< 0.00			-1.5	0	0		< 0.01	< 0.00	< 0.00	<	0.00	
Q10	estimation of national insurance contributions and payment of total amounts	-0.5	0	0		< 0.00	< 0.00	< 0.00	< 0.01			-1	0	0		< 0.00	< 0.00	< 0.00	<	0.01	
Q11	estimation of company tax burdens and payment of total charges to the state	0	0	0		< 0.00	< 0.00	< 0.00	= 0.14			-0.5	0	0		< 0.00	< 0.00	< 0.00	<	0.04	
Q12	provisions of other relevant legislation are properly followed	-1.5	0	0		< 0.00	< 0.00	< 0.00	< 0.00			-1.5	0	0		< 0.02	< 0.00	< 0.00	<	0.00	
Q13	financial statements present "the real picture" (TFV)	-0.5	0	1.5		< 0.00	< 0.00	< 0.00	< 0.00			-1.5	0	1.5		< 0.00	< 0.00	< 0.00	<	0.00	
Q14	remarks are added to auditor's report when necessary	-1	0	1.5		< 0.00	< 0.00	< 0.00	< 0.00			-1.5	0	1.5		< 0.00	< 0.00	< 0.00	<	0.00	
Q15	whistle blowing on tax issues	-1.5	-1	0		= 0.14	< 0.00	< 0.00	< 0.00			-2	-1	0		< 0.00	< 0.00	< 0.00	<	0.00	
Q16	whistle blowing on other issues	-1.5	-1	0		< 0.04	< 0.00	< 0.00	< 0.00			-2	-1.5	0		< 0.00	< 0.00	< 0.00	<	0.00	
Q17	being independent	-1.5	-1	1		< 0.00	< 0.00	< 0.00	< 0.00			-2	-1.5	1		< 0.00	< 0.00	< 0.00	<	0.00	
Q18	detect fraud and illegal acts	-0.5	0	0.5		< 0.00	< 0.00	< 0.00	< 0.00			-0.5	0	0.5		< 0.00	< 0.00	< 0.00	<	0.01	
Q19	report fraud to management/shareholders	0	0	1		< 0.01	< 0.00	< 0.00	< 0.03			0	0	1		< 0.01	< 0.00	< 0.00	<	0.04	
Q20	report fraud to public authorities	-1	0	0		< 0.03	< 0.00	< 0.00	< 0.00			-1.5	-1.5	0		< 0.02	< 0.00	< 0.00	<	0.00	
Q21	report on effectiveness and efficiency of company's administration	0	0	1		= 0.71	< 0.00	< 0.00	< 0.00			0	0	1.5		= 0.35	< 0.00	< 0.00	=	0.32	
Q22	promote effectiveness and efficiency of the company	1	1.5	1.5		< 0.03	< 0.00	= 0.91	= 0.91			1.5	2	1.5		< 0.00	< 0.12	>	0.02		
Q23	advice on tax, accounting, and administrative issues promoting company interests	1	2	1.5		< 0.02	= 0.12	= 0.27	= 0.27			1.5	2.5	1.5		< 0.01	= 0.73	>	0.00		
n		152	27	59		152 vs. 27	152 vs. 59	27 vs. 59				152	27	59		152 vs. 27	152 vs. 59	27 vs. 59			

Notes. 1) The symbols =, >, and < indicate the accepted hypothesis at the 0.05 significance level.

2) A few non-zero medians which, however, were not statistically different from zero (Wilcoxon test, $\alpha=5\%$) are reported as zero.

3) Original response data on the scale -3 to +3.

Auditors from EX-SOL seemed to believe that the audit reform did not affect the vast majority of 'ordinary' audit functions for either type A or type B companies. This group of auditors suggested that there was a small negative effect on few functions relating to public communication of audit findings and the question of independence (Q15 to Q17 for both type A and type B, and Q20 for type B). However, EX-SOL auditors appeared to be very enthusiastic with respect to positive effects on two functions related to providing MAS, particularly for type B companies (Q22 and Q23). It is noted that both EX-SOL and SOL SA auditors did not perceive any change in emphasis in relation to one MAS function (Q21 - report on the effectiveness and efficiency of company's administration).

Conversely, auditors from SELE appeared to hold the view that the liberalisation had a positive effect on the emphasis given to the majority of 'ordinary' audit functions (12 out of 20), for both type A and type B companies. The positively affected functions were related to protecting the interests of both shareholders, and external stakeholders and to 'true and fair' presentation of financial statements. It is important to notice that according to auditor members of SELE no 'ordinary' audit function was negatively affected. Finally, SELE auditors also perceived a significant positive effect on all three functions relating to providing MAS (Q21 to Q23).

The divergence in the responses of the three auditor groups is more clearly evident when appropriate statistical tests for differences in central location were performed. Table 6.11 also presents the P-values from running the M-W test. These results clearly suggest that for the vast majority of the 23 functions the three groups of auditors had divergent views, in relation to the perceived effects of liberalisation. This divergence occurred for both type A and type B companies, and appeared to be more evident in 'ordinary' rather than in MAS related functions. The received responses are so different that the M-W test has most frequently produced P-values as small as 0. As a rule, SOL SA respondents had a smaller centroid than EX-SOL members, and EX-SOL members a smaller centroid than

SELE respondents. The only exceptions occurred in the case of type B companies for two MAS related functions (Q22 and Q23) where EX-SOL had a larger centroid than SELE.

While financial executives appeared to believe that there was no difference in emphasis between type A and type B companies, the three groups of auditors held divergent views on this issue. Table 6.12 presents results which compare the responses of auditors for type A and type B companies. Auditors from SOL SA appeared to make a very clear distinction between type A and type B companies. The M-W results showed that there were only four audit functions with no statistically significant difference (Q1, Q18, Q19, and Q21). In contrast with auditors from SOL SA, auditors from EX-SOL did not make any distinction between type A and type B companies for the vast majority of audit functions. Taking an extreme stance, auditors from SELE supported the view that the emphasis was the same for type A and type B companies, across all 23 functions.

An interesting pattern emerges from table 6.12. In all cases of statistically significant difference for 'ordinary' audit functions, SOL SA and EX-SOL auditors consistently perceived that more emphasis was given to type A companies. In contrast, for MAS related functions more emphasis was perceived for type B companies.

Table 6.12: Median Values of the Three Auditor Groups for Type A vs. Type B Companies. P-Values for Two-Tail (=) and One-Tail (> / <) Mann-Whitney Tests.

description of audit functions	median values						M-W tests type A vs. type B companies			
	sol sa		ex-sol		sele		sol sa	ex-sol	sele	
	type A	type B	type A	type B	type A	type B				
Q1 protect the interests of shareholders	0	0	0	0	1	1	=	0.52	=	0.78
Q2 protect the interests of other stakeholder groups	-1	-1.5	0	0	1	1	>	0.00	>	0.04
Q3 correct estimation of results to prevent distribution of fictitious profits	-0.5	-1.5	0	0	1	1	>	0.00	>	0.01
Q4 proper use of received bank loans	-1	-1.5	0	0	0	0	>	0.00	=	0.29
Q5 company administration in accordance with the Articles of Association and law	-0.5	-1.5	0	0	0.5	0.5	>	0.00	=	0.11
Q6 company administration in accordance with "the rules of proper administration"	-0.5	-1.5	0	0	1	0.5	>	0.00	=	0.11
Q7 financial statements are correctly derived from corporate books	0	-1	0	0	1	0.5	>	0.00	=	0.14
Q8 correct application of General Accounting Plan (GAP)	-0.5	-1	0	0	0.5	0.5	>	0.00	>	0.03
Q9 provisions of labour legislation are correctly applied	-1	-1.5	0	0	0	0	>	0.00	=	0.14
Q10 estimation of national insurance contributions and payment of total amounts	-0.5	-1	0	0	0	0	>	0.00	=	0.73
Q11 estimation of company tax burdens and payment of total charges to the state	0	-0.5	0	0	0	0	>	0.00	=	0.87
Q12 provisions of other relevant legislation are properly followed	-1.5	-1.5	0	0	0	0	>	0.00	=	0.22
Q13 financial statements present "the real picture" (TFV)	-0.5	-1.5	0	0	1.5	1.5	>	0.00	=	0.28
Q14 remarks are added to auditor's report when necessary	-1	-1.5	0	0	1.5	1.5	>	0.00	=	0.10
Q15 whistle blowing on tax issues	-1.5	-2	-1	-1	0	0	>	0.00	=	0.39
Q16 whistle blowing on other issues	-1.5	-2	-1	-1.5	0	0	>	0.00	=	0.36
Q17 being independent	-1.5	-2	-1	-1.5	1	1	>	0.00	=	0.13
Q18 detect fraud and illegal acts	-0.5	-0.5	0	0	0.5	0.5	=	0.13	=	0.91
Q19 report fraud to management/shareholders	0	0	0	0	1	1	=	0.95	=	0.75
Q20 report fraud to public authorities	-1	-1.5	0	-1.5	0	0	>	0.00	=	0.35
Q21 report on effectiveness and efficiency of company's administration	0	0	0	0	1	1.5	=	0.34	=	0.30
Q22 promote effectiveness and efficiency of the company	1	1.5	1.5	2	1.5	1.5	<	0.03	=	0.11
Q23 advice on tax, accounting, and administrative issues promoting company interests	1	1.5	2	2.5	1.5	1.5	<	0.01	=	0.31
n	152		27		59		152	27		59

Notes. 1) The symbols =, >, and < indicate the accepted hypothesis at the 0.05 significance level.

- 1) A few non-zero medians which, however, were not statistically different from zero (Wilcoxon test, $\alpha=5\%$) are reported as zero.
2) Original response data on the scale -3 to +3.

3.3 Comparing the Views of Auditor Groups vs. Financial Executives

The sign of perceived change in emphasis for all groups of respondents based on medians is presented in table 6.13. It is interesting that for the 20 'ordinary' audit functions there is not a single function on which all groups of respondents converged as to the perceived effects of the liberalisation, in terms of direction of change. For MAS related functions, however, the four respondent groups converged in two cases (Q22 and Q23).

Results from comparing the responses of each of the three auditor groups against the responses of financial executives, as a single group, running the M-W test, are reported in table 6.14. In general, the data presented in table 6.14 shows a very significant divergence between each pair of groups of auditors and financial executives, in relation to perceived effects of liberalisation on the emphasis which auditors gave to various audit functions. The comparison between SOL SA auditors and financial executives showed that for all 20 'ordinary' functions (Q1 to Q20), for both type A and type B companies, the views of the two groups were significantly different in statistical terms ($P\text{-values} = 0$). Concerning the three functions relating to providing MAS, the two groups of respondents diverged in three cases (Q23 for type A, and Q22 and Q23 for type B companies) and converged in the rest three (Q21 and Q22 for type A, and Q21 for type B companies).

The comparison of the responses to the mail survey between EX-SOL auditors and financial executives revealed a mixed picture. For type A companies the two groups converged in relation to perceived effects of liberalisation for the vast majority of 'ordinary' functions (15 out of the 20 functions). Divergence mainly occurred with functions relating to public communication of audit findings. For type B companies, however, the pattern was reversed. Here, for the vast majority of audit functions (again 15 of the 20 functions) the two groups clearly diverged. Concerning the MAS related functions the two groups diverged on two functions (Q22 and Q23) and converged on one function (Q21) for both, type A and type B companies.

TABLE 6.13: *Sign of Perceived Change in Emphasis for Auditors and Financial Executives Based on Medians.*

		Auditors						financial executives
		type A companies			type B companies			
description of audit functions		sol sa	ex sol	sele	sol sa	ex sol	sele	
Q1	protect the interests of shareholders	0	0	+	0	0	+	0
Q2	protect the interests of other stakeholder groups	-	0	+	-	0	+	0
Q3	correct estimation of results to prevent distribution of fictitious profits	-	0	+	-	0	+	0
Q4	proper use of received bank loans	-	0	0	-	0	0	0
Q5	company administration in accordance with the Articles of Association and law	-	0	+	-	0	+	0
Q6	company administration in accordance with "the rules of proper administration"	-	0	+	-	0	+	0
Q7	financial statements are correctly derived from corporate books	0	0	+	-	0	+	0
Q8	correct application of General Accounting Plan (GAP)	-	0	+	-	0	+	0
Q9	provisions of labour legislation are correctly applied	-	0	0	-	0	0	0
Q10	estimation of national insurance contributions and payment of total amounts	-	0	0	-	0	0	0
Q11	estimation of company tax burdens and payment of total charges to the state	0	0	0	-	0	0	0
Q12	provisions of other relevant legislation are properly followed	-	0	0	-	0	0	0
Q13	financial statements present "the real picture" (TFV)	-	0	+	-	0	+	0
Q14	remarks are added to auditor's report when necessary	-	0	+	-	0	+	0
Q15	whistle blowing on tax issues	-	-	0	-	-	0	0
Q16	whistle blowing on other issues	-	-	0	-	-	0	0
Q17	being independent	-	-	+	-	-	+	0
Q18	detect fraud and illegal acts	-	0	+	-	0	+	0
Q19	report fraud to management/shareholders	0	0	+	0	0	+	0
Q20	report fraud to public authorities	-	0	0	-	-	0	0
Q21	report on effectiveness and efficiency of company's administration	0	0	+	0	0	+	0
Q22	promote effectiveness and efficiency of the company	+	+	+	+	+	+	+
Q23	advice on tax, accounting, and administrative issues promoting company interests	+	+	+	+	+	+	+
total	- (less emphasis)	16	3	0	18	4	0	0
"	0 (no change)	5	18	8	3	17	8	21
"	+ (more emphasis)	2	2	15	2	2	15	2
n		152	27	59	152	27	59	250

Note. A plus indicates a positive, a minus a negative, and a zero indicates no change in emphasis given by auditors to audit functions.

Table 6.14: *P-Values for Two-Tail (=) and One Tail (> / <) Mann-Whitney Tests for Differences between Auditor Groups and Financial Executives.*

description of audit functions	sol sa vs. financial executives		ex-sol vs. financial executives		sele vs. financial executives	
	type A	type B	type A	type B	type A	type B
Q1 protect the interests of shareholders	< 0.00	< 0.00	= 0.65	= 0.68	> 0.00	> 0.00
Q2 protect the interests of other stakeholder groups	< 0.00	< 0.00	= 0.81	< 0.02	> 0.00	> 0.00
Q3 correct estimation of results to prevent distribution of fictitious profits	< 0.00	< 0.00	= 0.55	< 0.00	> 0.00	> 0.00
Q4 proper use of received bank loans	< 0.00	< 0.00	< 0.01	< 0.00	> 0.00	> 0.00
Q5 company administration in accordance with the Articles of Association and law	< 0.00	< 0.00	= 0.64	< 0.01	> 0.00	> 0.00
Q6 company administration in accordance with "the rules of proper administration"	< 0.00	< 0.00	= 0.36	< 0.00	> 0.00	> 0.00
Q7 financial statements are correctly derived from corporate books	< 0.00	< 0.00	= 0.28	< 0.00	> 0.00	> 0.00
Q8 correct application of General Accounting Plan (GAP)	< 0.00	< 0.00	= 0.47	< 0.01	> 0.00	> 0.00
Q9 provisions of labour legislation are correctly applied	< 0.00	< 0.00	= 0.36	< 0.00	> 0.00	> 0.00
Q10 estimation of national insurance contributions and payment of total amounts	< 0.00	< 0.00	= 0.62	= 0.89	> 0.00	> 0.00
Q11 estimation of company tax burdens and payment of total charges to the state	< 0.00	< 0.00	= 0.77	= 0.86	> 0.02	> 0.01
Q12 provisions of other relevant legislation are properly followed	< 0.00	< 0.00	= 0.54	< 0.03	> 0.00	> 0.00
Q13 financial statements present "the real picture" (TFV)	< 0.00	< 0.00	= 0.32	< 0.01	> 0.00	> 0.00
Q14 remarks are added to auditor's report when necessary	< 0.00	< 0.00	= 0.21	< 0.00	> 0.00	> 0.00
Q15 whistle blowing on tax issues	< 0.00	< 0.00	< 0.00	< 0.00	> 0.00	> 0.00
Q16 whistle blowing on other issues	< 0.00	< 0.00	< 0.00	< 0.00	> 0.00	> 0.00
Q17 being independent	< 0.00	< 0.00	< 0.03	< 0.00	> 0.00	> 0.00
Q18 detect fraud and illegal acts	< 0.00	< 0.00	= 0.59	= 0.77	> 0.00	> 0.00
Q19 report fraud to management/shareholders	< 0.00	< 0.00	= 0.42	= 0.47	> 0.00	> 0.00
Q20 report fraud to public authorities	< 0.00	< 0.00	< 0.00	< 0.00	> 0.01	> 0.03
Q21 report on effectiveness and efficiency of company's administration	= 0.81	= 0.34	= 0.20	= 0.36	> 0.00	> 0.00
Q22 promote effectiveness and efficiency of the company	= 0.30	> 0.00	> 0.02	> 0.00	> 0.00	> 0.00
Q23 advice on tax, accounting, and administrative issues promoting company interests	> 0.00	> 0.00	> 0.00	> 0.00	> 0.00	> 0.00
n	152 vs. 250		27 vs. 250		59 vs. 250	

Note. The symbols =, >, and < indicate the accepted hypothesis at the 0.05 significance level.

The comparison between SELE auditors and financial executives showed that these were apparently the most divergent groups. There was not a single case of convergence between the two groups, for all 23 functions. The degree of divergence was such that the M-W test has almost always produced P-values as small as 0.

From the data presented in table 6.14 a pattern clearly emerged. For the functions with divergent responses SOL SA and EX-SOL auditors consistently had a smaller centroid compared to the responses of financial executives for all 20 'ordinary' audit functions. In contrast, for MAS related functions the two auditor groups consistently exhibited a larger centroid, indicating a more positive view, as to the perceived effects of liberalisation on auditor behaviour. On the other hand, the responses of members of SELE always exhibited a significantly larger centroid compared to financial executives, for all 23 functions.

The cases of convergence and divergence, comparing the views of all possible pairs of respondent groups, are summarised in table 6.15. Two criteria are used for this classification: M-W results and medians. The data showed that using the point estimates of medians to compare the views of the two groups was a rather crude approach. The M-W test was naturally capable of revealing more cases of divergence between the groups. Generally, the results showed that divergence occurred for the vast majority of audit functions for five out of the six pairs compared. The exception occurred when comparing EX-SOL vs. financial executives, and only for type A companies.

Table 6.15: *Convergence and Divergence between Respondent Groups.*

	Type A companies				Type B companies			
	<u>agreement</u>		<u>disagreement</u>		<u>agreement</u>		<u>disagreement</u>	
	M-W	medians	M-W	medians	M-W	medians	M-W	medians
sol sa vs. ex-sol	2	5	21	18	1	3	22	20
sol sa vs. sele	1	1	22	22	1	2	22	21
ex-sol vs. sele	3	7	20	16	2	5	21	18
sol sa vs. financial executives	2	7	21	16	1	3	22	20
ex-sol vs. financial executives	16	18	7	5	6	17	17	6
sele vs. financial executives	–	8	23	15	–	8	23	15

Note. The numbers shown are based on Mann-Whitney (M-W) test and on median point estimates.

Table 6.16 (see next page) presents summary data of the responses to the mail survey. For each group, the table shows the percentage of respondents who marked a negative score (-3 to -1), zero (0), or a positive score (+1 to +3). The data give an indication of the shape and the dispersion of the underlying distribution of the responses of each group and, generally, reaffirm the analysis presented so far.

In summary, the mail survey results have clearly shown that the four respondent groups to the mail survey held distinctive and frequently opposing views on the impact of liberalisation of the Greek auditing profession on the emphasis which auditors gave to a number of audit functions. It is important to note that divergence in perceptions occurred not simply in terms of magnitude of change but, most importantly, in terms of direction of change. In relation to 'ordinary' audit functions (Q1 to Q20), auditors from SOL SA seemed to believe that less emphasis was given by auditors to most audit functions. On the other hand, auditors from SELE held a diametrically opposite view. The latter group appeared to believe that for the majority of 'ordinary' audit functions more emphasis was given by auditors. It is noted that there was not a single function for which SELE auditors perceived that auditors gave less emphasis since liberalisation. Auditors from EX-SOL, the splinter group, appeared to support the view that there was only a small negative effect for a few functions which related to public communication of audit findings. This last group was largely in accord with the financial executives who maintained that the liberalisation did not have a noticeable effect on the emphasis which auditors gave to 'ordinary' audit functions.

However, in relation to the three functions relating to providing MAS, there appeared to be a general convergence between the four groups of respondents to the mail survey. All groups seemed to agree that, following liberalisation, auditors gave more emphasis to this collection of functions, although there was still a disagreement about the degree of change. The general divergence for 'ordinary' audit functions needs to be interpreted and properly explained. As will be shown, the reasons for this divergence in the views of respondents should be understood to lie in the occurrence of self-interested bias in the responses to the mail survey.

Table 6.16: Summary Data of the Responses to the Mail Survey.

financial executives			auditors for type A companies						auditors for type B companies					
			sol sa			ex-sol			sol sa			ex-sol		
			%	minus	zero	plus	%	minus	zero	plus	%	minus	zero	plus
minus	zero	plus												
Q1	12	59	29	41	43	16	8	60	32	plus	47	28	26	plus
Q2	22	59	19	60	38	2	16	68	16	minus	76	24	0	minus
Q3	13	58	29	50	48	2	8	80	12	zero	70	29	1	zero
Q4	18	67	15	61	38	1	36	60	4	plus	76	24	0	plus
Q5	14	60	26	50	46	4	24	60	16	plus	72	26	2	plus
Q6	17	57	26	50	46	3	28	60	12	plus	74	23	3	plus
Q7	15	62	23	34	65	1	12	80	8	plus	53	46	1	plus
Q8	18	54	28	46	50	4	16	72	12	plus	63	33	4	plus
Q9	28	64	8	64	36	0	32	68	0	plus	76	24	0	plus
Q10	20	70	10	48	50	1	12	84	4	plus	62	37	1	plus
Q11	10	62	28	29	65	6	0	80	20	plus	47	47	4	plus
Q12	27	65	8	64	36	0	28	72	0	plus	77	23	0	plus
Q13	18	51	31	58	41	1	20	60	20	plus	82	18	0	plus
Q14	23	54	23	68	32	0	25	71	4	plus	86	14	0	plus
Q15	26	64	10	74	25	1	56	44	0	plus	87	12	1	plus
Q16	31	62	7	76	24	0	60	40	0	plus	89	11	0	plus
Q17	37	49	14	87	13	0	64	28	8	plus	93	6	1	plus
Q18	11	65	24	40	53	7	16	64	20	plus	50	38	12	plus
Q19	9	65	25	31	53	16	8	60	32	plus	36	42	22	plus
Q20	18	71	11	58	41	1	44	52	4	plus	71	28	1	plus
Q21	9	55	36	17	43	40	20	48	32	plus	21	32	47	plus
Q22	10	35	56	8	32	60	4	20	76	plus	9	23	68	plus
Q23	10	33	57	7	26	68	4	20	76	plus	7	17	76	plus

Note. Minus corresponds to negative scores (-3 to -1, perceived less emphasis), zero represents scores indicating no change in emphasis (0), and plus corresponds to positive scores (+1 to +3, perceived more emphasis).

4. The Mail Survey Revisited: Evidence of Bias

4.1 Comments from Mail Survey Respondents

The results of the questionnaire survey presented previously clearly suggest that there is a considerable degree of divergence in the views of the four groups of respondents, as to the effects of liberalisation on the emphasis which statutory auditors were perceived to give to various audit functions. This section presents evidence which shows the political nature of the issue of the auditing profession in Greece, and suggests that respondents' self interest may have systematically biased the responses to the questionnaire.

The evidence presented here is based on a large number of comments received from respondents regarding the impact of liberalisation on auditor behaviour. There were two sources of such comments. The first source of comments comprised the mail survey, where respondents were invited to add any remark at the end of the questionnaire (written anonymously). The second source of comments comprised the telephone conversation, which the researcher had with each individual respondent during the first contact and the follow up procedure (oral comments). Comments received during the telephone conversations were not specifically invited by the researcher. However, a very large number of respondents, as a rule auditors, were keen to make an oral comment to the researcher concerning the liberalisation of the Greek auditing profession.

A summary description of the elicited written comments is presented in figure 6.1. As can be seen there, most of the comments concentrated on changes in actual audit practice following the liberalisation, rather than referring to the changes in emphasis which auditors were perceived to give to various audit functions. Several respondents made general statements about the audit reform and others made policy suggestions for the future. Oral comments were generally quite similar in content to the written ones.

Figure 6.1: A summary of Written Comments Elicited Through the Mail Survey.

I. Financial Executives.

Negative comments

- ◆ lack of independence;
- ◆ lower fees - reduced audit time;
- ◆ deterioration in audit quality;
- ◆ unfair competition;
- ◆ anxiety and effort to secure appointment;
- ◆ less critical comments in published reports and much effort by auditors to ingratiate themselves;
- ◆ inexperienced and untrained personnel is frequently used by multinational audit firms;
- ◆ effort to impress powerful business people.

Neutral

- ◆ auditors do the same job, we have the same auditor.

Positive

- ◆ More essential audits rather than sticking to legal formalities;
- ◆ improved relations with auditors;
- ◆ lower audit costs.

II. CAs and Assistant CAs from SOL SA

similar comments to the negative comments of financial executives. In addition:

- ◆ some audit reform was needed but the liberalisation was very sudden, unscheduled, and unorganised. Essentially it aimed at setting companies free from the strict audits of SOL;
- ◆ as membership of SOL grew over the years a civil servant mentality developed between a number of its members. There were no incentives and good performance was not adequately rewarded. The reform should not be nullified;
- ◆ things might improve through control of audit practice;
- ◆ if no corrective measures were taken, auditing would become perfunctory.

III. CAs and Assistant CAs from EX-SOL

comments similar with SOL SA, but more frequently supportive of liberalisation.

IV. CAs and Assistant CAs from SELE

- ◆ attention to 'True and Fair' presentation rather than to compliance with legislation;
- ◆ some auditors bow to the pressure of clients. This also occurred before the liberalisation but was camouflaged. In the long run, this will disappear;
- ◆ The liberalisation was a big step forward and the overall quality of audits has been considerably upgraded.

In total, 128 respondents (average 26.2%) from all groups of respondents commented in writing on the perceived effects of the liberalisation. Table 6.17 presents a breakdown of the

total number of written comments by group of respondents, classified in three categories: positive, neutral, and negative comments. This classification was used to denote the respondent's overall view of the effects of liberalisation. The testimony of each of the respondent groups is analysed in turn.

Table 6.17: Number of Written Comments Elicited through the Mail Survey.

	Type of comment received			Total	Percent of respondents
	Positive	Neutral	Negative		
Financial executives	5	7	21	33	13.2
Auditors from SOL SA	-	1	66	67	44.1
Auditors from EX-SOL	-	2	8	10	37.0
Auditors from SELE	13	4	1	18	30.5
Total	18	14	96	128	26.2

Note. The classification positive, neutral, and negative comments is used to denote the respondent's expressed overall view of the effects of liberalisation.

4.2 Financial Executives

Relatively few financial executives (33 individuals of the 250 who returned a questionnaire or 13.2%) made a written comment on the questionnaire concerning the effects of liberalisation (see table 6.17). It is interesting that the vast majority of financial executives who made a written comment made a negative one (21 negative comments out of a total of 33, only 5 being positive and 7 neutral). Further, even fewer financial executives made an oral comment in relation to the effects of liberalisation. Most of them suggested that they did not perceive a noticeable change in the emphasis which auditors accorded to various functions. A very small number of financial executives also pointed out that the time elapsed since liberalisation was not sufficiently long for any changes to become fully evident.

4.3 SOL SA Auditors

The written comments from all three auditor groups, in contrast with financial executives, generally followed the pattern of opinions expressed in the main body of the questionnaire. Sixty seven SOL SA auditors (44.1%) made a written comment. An interesting finding is that

most of the written comments from SOL SA showed a great similarity with the negative comments of financial executives. In addition, a very large number of SOL SA auditors made an oral comment to the researcher over the phone. These oral comments were very similar in content to the written ones. Generally, SOL SA auditors seemed to suggest that the liberalisation was sudden, unscheduled, and unorganised, and that it had resulted in a 'crisis' in the profession which would be difficult to overcome. According to the comments made by SOL SA auditors, actual audit practice had significantly changed towards more consultancy services (MAS related functions) and less real audit ('ordinary' audit functions). The main reason for this change, as identified in the comments, was that auditors felt insecure and dependent upon audited companies for re-election.

However, it is important to note that no written or oral comments by SOL SA members appeared to support the view that the legislation which introduced liberalisation should be nullified and SOL reinstated. On the contrary, a large number of SOL SA members suggested that SOL, as an organisation, had reached its limits in terms of efficient and effective operation, and as a result, some sort of audit reform was necessary. Most SOL SA auditors appeared to accept fully the idea of a liberalised profession as a reality, and some clearly supported it. It seems that the view of a number of SOL SA auditors was epitomised by one certified auditor thus (trans.):

"... I am clearly in support of liberalisation, we cannot and should not go back to SOL. SOL could not go any further, mainly due to its organisational weakness which allowed the development of a civil servant mentality during the last years and the lack of essential incentives for auditors. The liberalisation effected has created very serious problems. I do believe, however, that in the long run the situation can improve if: very strict rules of practice become enforceable; audit files are examined by a committee of experienced, strict, and, most important, honest individuals; exemplary punishment is delivered and publicised for those auditors not abiding by the rules" (written signed comment).

Another certified auditor of SOL SA returned a signed questionnaire with negative markings, accompanied by the following sarcastic comment (trans.):

"... Following the liberalisation of the Greek auditing profession, three world-wide unparalleled achievements have been made:

- 1) miraculously, audited companies abide by the provisions of commercial, tax, and other legislation and, as a result, published auditors' reports are clean from any comment;
- 2) the efficiency of certified auditors in performing audits reached sky high, as they manage to audit companies thoroughly at times reduced up to 50% compared to the time required under SOL;
- 3) certified auditors became uncompromising ... and companies are satisfied as they get the same unimpeachable audits at a reduced cost, thanks to the healthy forces of free competition".

It is also worth mentioning that during the follow up telephone contacts one certified auditor of SOL SA stated to the researcher that he was a member of an informal group of auditors of SOL SA who were suspicious about the survey and how its results could be used. The interviewee implied that his informal group favoured the liberalised profession, and clearly stated that they decided not to respond to the survey.

4.4 EX-SOL Auditors

EX-SOL auditors can be divided into those who took part in the survey and those who decided, *en masse*, not to participate. Generally, written and oral comments received from EX-SOL auditors who participated were similar to those of SOL SA auditors concerning the perceived effects of the liberalisation. However, auditor members of the EX-SOL appeared more supportive of a liberalised profession, and emphasised that in the long run the 'crisis' could be overcome if the situation stabilised and strict rules of practice were enforced, safeguarding audit quality and fair competition between auditors. As one certified auditor stated in his written comment (trans.) : "... If that happened, future generations of certified auditors may enjoy what older generations have not", implying that auditors under SOL had a low remuneration package. Further, a small number of auditors from EX-SOL expressed some concern about how the results of this study could be used.

Some other EX-SOL auditors, however, appeared to be particularly concerned about the survey, and finally they took a hostile attitude. During the follow up calls, the researcher was informed that auditors from two EX-SOL audit firms had decided, *en masse*, not to take part in the survey (telephone interviews, 5 and 9 May 1995). The two audit firms employed 9

certified auditors-partners⁷ representing 22.5% of the 40 questionnaires posted to EX-SOL CAs. Individual members of these firms explained to the researcher that the reason for their abstention was that they were very sceptical and suspicious about the survey and how its results could be used. They added that they had advised their client audited companies, which happened to be included in the survey sample, not to participate. One certified auditor specifically questioned whether "... you (the researcher) have legally the right to ask respondents these sorts of questions and we (the audit firm) reserve the right to take appropriate action when we see the complete report of the research" (telephone interview, 9 May 1995). A similar statement was made to the researcher by another member of the same audit firm during a telephone conversation on 9 May 1995. In response, the researcher simply stated that: the project was a purely academic piece of research; the researcher did not intend to get involved in the intra-professional conflict; full anonymity and confidentiality was guaranteed; and that participation in the survey depended entirely upon a respondent's free will.

The apparent lack of co-operation on behalf of a part of EX-SOL members can probably explain the low response rate of this group, as shown earlier.

4.5 SELE auditors

Written comments from auditor members of SELE were generally very supportive of the liberalisation, although one or two comments appeared which suggested that besides detecting very significant positive effects, there were also a few negative aspects. During telephone conversations with auditors from SELE the political nature of the auditing profession became very clear. The researcher has no evidence which shows that any audit firm of SELE decided, *en masse*, not to take part in the survey, or whether they advised their clients not to participate, as the two EX-SOL audit firms did.

⁷The number of assistant and articled auditors employed in these audit practices was not released to the researcher.

However, a great number of members of SELE during the follow up calls (usually from the rank of certified auditor) expressed concerns similar to those expressed by members of the two EX-SOL audit firms. Some of these auditors of SELE stated that they would think carefully about whether they would answer the survey instrument. A typical set of questions which the researcher was asked by members of SELE were: *who are you; who is behind the project; and how will the results of this survey be used ?* One certified auditor with British qualifications (CACA) added that he "... found the questions shocking" (telephone interview, 29 April 1995). Another partner in a 'big six' firm initially stated: "... I do not want to participate in a survey the results of which could be used against my professional interests" (telephone interview, 30 April 1995). He noted that his concerns were shared by a number of colleagues in his audit firm. Finally, he highlighted the fact that the profession was still in a period of flux and asked the researcher's views on the appropriate organisation of the profession in order to decide on answering the questionnaire.⁸

Interesting comments were also received from three SELE auditors who returned a blank instrument. All three unusable answers were signed by the respondents. The first of these auditors, an assistant CA with British qualifications (ICAEW), simply commented that the audit reform ought not have any impact on auditor behaviour, as the legal requirements of auditors had not changed. The second auditor, a partner in a 'big six', stated that he could not answer the questionnaire because, in his opinion, this was against professional ethics. The third auditor, another 'big six' partner, explained that he was not in a position to judge the emphasis which auditors of SOL gave before the liberalisation to the various functions. However, it is worth mentioning here that this auditor, a leading figure of SELE, had been heavily involved in the struggle for liberalisation and had embarked upon a detailed criticism

⁸The researcher reiterated that this was a purely academic research, that full confidentiality, anonymity, and objectivity were guaranteed, and that he did not intend to get involved in the intra-professional conflict. The researcher also emphasised that the survey was about the perceptions of financial executives and auditors, and that the researcher's personal views on the issue were totally irrelevant. The respondent in question willingly promised to rethink about answering the questionnaire. The researcher had to repeat statements similar to the above to a number of members of SELE.

of the quality of audits conducted by SOL. This instance should be interpreted as an indication of the deeply political nature of the affairs of the audit profession in Greece.

4.6 Assessing the Mail Survey Results

The results of the mail survey presented previously clearly suggest that the question: *what was the impact of liberalisation on the emphasis which auditors gave to audit functions?* presents an enigma at first sight, as each group of respondents has produced a different answer. If one is to accept the view of SOL SA auditors, then less emphasis is given to most audit functions. In contrast, if one follows the view of SELE members, then more emphasis is the answer. Finally, if one is to believe EX-SOL auditors or financial executives, then little or no essential change has occurred.

It is contended here that the answer to this puzzle lies in the deeply political nature of the subject matter of this inquiry. It was explained earlier that SOL had fiercely resisted the liberalisation which SELE had fought for. Hence, it could be assumed that SOL SA and SELE members may have biased their answers to the questionnaire.⁹ Comments received from members of SELE have produced evidence consistent with the positive bias hypothesis. The analysis of comments has also produced some evidence of positive bias for some auditors from EX-SOL, but failed to provide clear evidence for bias in the responses of auditors from SOL SA.

The analysis of comments has also failed to produce any clear evidence of bias in the responses of financial executives. However, such lack of evidence should not be used to safely rule out the possibility that bias might have occurred. As has been explained earlier, audited companies were involved in the affairs of the Greek auditing profession and SEV, the Confederation of Greek Industries, had asked the government to liberalise the market for audit services. There had been a sort of tacit friction between SOL and audited companies, mainly

⁹Over or under reporting to the mail survey might have been a deliberate and conscientious attempt by respondents, in order to protect and promote their perceived self-interest. It could also, however, be simply the result of a sub-conscious sense of belonging to a group.

due to lack of congruence in their interests. The analysis presented in earlier chapters has advanced three main reasons to account for this friction. Firstly, auditors of SOL, in general, wrote many critical remarks in published auditor reports. Secondly, they frequently 'blew the whistle' on audited companies. Thirdly, and possibly most importantly, the majority of audited companies in Greece were of a family type (proprietor/manager) and, as a result, the need for external audits was not easily comprehended or widely accepted. In addition, the analysis so far has suggested that a considerable reduction in audit costs followed the liberalisation of the profession. In other words, there appears to have been material reasons for audited companies to be in favour of the new organisation of the profession.

If it were assumed that corporate financial executives primarily serve the interests of their employers, or at least that the interests of the two groups, corporate financial executives and the proprietors of companies are in congruence, one could speculate that bias may have been introduced to the responses of financial executives (Watts and Zimmerman, 1986). The possibility of such bias was mentioned by one senior corporate executive during the pre-testing of the questionnaire. Further, Grigoracos, a retired certified auditor from SOL and technical consultant to SOE, stated (trans.):

"... I wonder how many respondents will reply truthfully. I would rather bet you will come up with the conclusion that everything is fine. Take for example financial executives, not to mention auditors. What do you expect of them? At best, they will say nothing has changed; at worse, everything is much better. You understand, they have a material motive to bias their responses. Before (the liberalisation) they had a policeman following them. Now they have a consultant, an advocate, to take advice from, at a considerably reduced cost" (interview during pre-testing, 10 February 1995).

The analysis of the views of auditors and financial executives as to whether the liberalisation of the Greek auditing profession impacted upon auditor behaviour has not given a clear and definite answer. The reason appears to be that respondents' self-interest has introduced bias in the results of the mail questionnaire. In the following section a series of interviews with financial executives and auditors presents clear evidence for the occurrence of self-interested bias in the mail survey results.

5. Further Evidence of Bias: Interviews with Mail Survey Participants

This section reports results of post-questionnaire personal interviews with a number of auditors and financial executives who had been included in the mail survey sample. As has been explained these interviews aimed at shedding light on the views expressed by auditors and financial executives in the mail survey. The interviews were divided into two parts. In the first half interviewees were invited to explain and justify the views which they had expressed in the mail survey. In the second half, summarised results of the mail survey were communicated to interviewees, and they were invited to comment on them.

5.1 SOL SA auditors

Interviewees from SOL SA comprised three certified auditors (CAs) and three articled and assistant CAs. All six auditors appeared to be very concerned about the state of the profession after the liberalisation. In explaining and justifying their views, SOL SA auditors stated that they had tried to answer the questionnaire as sincerely and truthfully as possible. When probed, however, they admitted that some sort of subconscious bias might have been introduced into their responses. Nonetheless, they very emphatically stressed that no purposeful attempt was made to bias their responses. As one assistant CA explained there was no point in doing this as (trans.): "... neither academic research nor even common sense could change political decisions concerning the auditing profession, as such decisions are determined by the priorities of powerful interest" (interview, 29 September 1995).

When the researcher described the mail survey results to auditors from SOL SA, they all suggested that the divergence in perceptions between the four groups of respondents should be seen as an attempt to protect material self-interests. The interviewees drew particular attention to the view of corporate financial executives that the liberalisation did not have any impact except for MAS related functions. They argued that financial executives in a sense had tried to support an arrangement which favoured their personal interests and the interests of their employers. One certified auditor explained that he had informally discussed the state of the

auditing profession with the chairman of a bank and a number of businessmen, and that all had agreed that a serious downgrading in the quality of statutory audits had followed the liberalisation of the profession. Another certified auditor with very long experience explained that he had talked to a number of people from other professional groups (SELE and EX-SOL), who also shared his negative views about the effects of liberalisation.

In short, all interviewees from SOL SA argued that the feeling that there had been a downgrading of the auditing profession was commonplace, and all had specific examples to give whereby auditors had compromised their audit opinions. An assistant CA gave his own experience thus (trans.):

"...I was the auditor (manager) in charge for a client, a listed company. Things had gone badly for that company over the last year, and a loss of Drs 385,000,000 (£1 million) had resulted. The company management wanted to show profits by capitalising operating expenses but the certified auditor had clearly objected. He told management '... either you show the loss or I write a remark in my report'. Two days before the report was signed I left to Northern Greece for the final audit of another company. I came back to Athens two weeks later and I found on my desk the financial statements of the first client: profits Drs 10,000,000 (£26,000) and no remark in the report. I am in the profession for some eight years and such things occur frequently during the last three years. I am seriously thinking to leave the profession and go to industry. It is more honourable (interview, 20 September 1995).

5.2 EX-SOL auditors

Two auditors were interviewed from EX-SOL, one certified auditor and one assistant auditor. The interview with the assistant auditor was very revealing in relation to the occurrence of bias in the mail survey. The researcher initially approached this individual over the phone. During the telephone conversation the interviewee said that he had marked zeros all over the questionnaire. Then, he willingly and in a very straightforward way stated that he had biased his responses and asked for a meeting to discuss the issue in person. The meeting was arranged for two days later, on 10 October 1995 at a central café in Athens. During the personal interview the individual initially retracted what he had said over the phone. Instead, he suggested that the liberalisation did not really have any impact on auditor behaviour. However, after a long probing discussion he admitted that the liberalisation had inaugurated a

very difficult period in the auditing profession. He explained that audit fees were well below 1992 nominal levels, auditors were trying to survive in an extremely competitive market and, as a result, they were forced to compromise their opinion. He also noted that frequently, accountants from audited companies had taken advantage of the weak position of auditors, had become uncooperative and arrogant, and that auditors had now to work in an unpleasant environment, under extreme pressure of time.

The certified auditor from EX-SOL appeared generally supportive of the liberalised profession. However, he clearly admitted that a fierce competition between auditors had led, in many cases, to audit fees being at such low levels that no effective audit could take place. He further suggested that auditor independence had become compromised to a great degree following the liberalisation, as auditors frequently bowed to the wishes and pressure of auditees. In relation to the mail survey results, the interviewee suggested that the diversity of opinion among the various groups was due to the occurrence of bias, as each group saw things from its own perspective.

5.3 SELE Auditors

The interviewees from SELE comprised three from the rank of certified auditor and three articled and assistant auditors. As explained below, articled and assistant auditors took a significantly different view compared to certified auditors who were very supportive of the liberalised audit profession.

The three articled and assistant auditors came from different firms and all appeared to have a very strong and positive corporate allegiance to their firm. They explained that the audit firm they worked for gave particular attention to audit quality and were leaders in the market. All argued that in answering the questionnaire they had tried to be objective and impartial. Further, they attributed the divergence in the views expressed by the four respondent groups in the mail survey to the occurrence of self-interested bias. They explained that such bias was not intentional as far as they were concerned. One of the interviewees suggested that deliberate

and calculated bias could not be ruled out for partners in audit firms, who had direct interests in the profession.

Articled and assistant SELE auditors also made two points which could partly account for the extremely positive views expressed by members of SELE in the mail survey. The first point concerns the fact that SELE auditors did not have personal experience of SOL audits and that their perceptions were to a certain extent based on the image of SOL which their audit firm had communicated to them. One interviewee clearly admitted (trans.) "... possibly there has been an incorrect appreciation of what emphasis auditors of SOL gave" (interview, 1 October 1995). The second point concerns information asymmetries within audit firms as lower or middle ranking personnel do not appear to have a complete picture of an audit. A senior in a 'big six' audit firm explained that he was given clear orders to do the 'perfect' audit and find all the problems a client might have. He then added (trans.):

"... When I conclude the audit of a client I report to my manager and, in turn, he reports to the partner in charge. I admit, however, that I don't know what happens when doors close and the partner discusses with the client. I don't follow how my audit findings are treated and what goes to the published report" (interview, 4 October 1995).

After some discussion, two interviewees took a different view from the view of SELE in the mail survey. One of them, a manager in a 'big six' firm, suggested that there was a limit on how strict an auditor could be with a client (trans.): "... I recently spent three days to work out a solution for a serious problem of a big client. The solution had to appear to be 'legal' for the Greek law and 'immaterial' for the international standards of my firm" (interview, 1 October 1995). This interviewee further suggested that, following the liberalisation, statutory auditors were put under severe strain by audited companies which used the threat of non-appointment as a tool to achieve their aims.

The second interviewee was even more conspicuous. He admitted that statutory auditing in general had suffered a downgrading following liberalisation. He explained that the basic reason for this was the very fierce competition between auditors, and the lack of any

monitoring of audit quality on behalf of SOE. He went on to give a specific example of opinion shopping (trans.):

"... My firm was approached by a company which wanted to go public on the Athens Stock Exchange. Except for asking for the audit cost, they explained to us the sorts of accounting problems they had and asked what remarks we would write. We insisted that all problems be explained in the report and as a result we lost the job. We followed the case. The job was given to a famous foreign audit firm and a clean audit report was issued" (interview, 4 October 1995).

In contrast with the views of articulated and assistant auditors, the three certified auditors of SELE, who were partners in three multinational audit firms, were very protective of the liberalised profession. They were particularly keen to emphasise that international audit firms had upgraded the quality of statutory auditing in Greece. The interviewees attributed the divergence of opinion among the mail survey respondent groups to the occurrence of self-interested bias. However, one interviewee also argued that part of the divergence could possibly mirror real differences and suggested that the neutral view of financial executives indicated that they did not want to get implicated in the intra-professional struggle. A second interviewee admitted, after a long searching discussion, that there was a problem with the reliability of audit reports, but that this was an old problem in which international firms clearly were not implicated (trans.):

"... I accept that in a number of cases there is a problem of reliability concerning published audit reports and the quality of audits, but this is an old problem. It existed prior to liberalisation, it goes on today, but there is no deterioration. I insist that no multinational audit firm, and definitely not mine, are implicated in this sorts of problems. Nevertheless, the Supervisory Council of SOE will soon respond to the problem by implementing a monitoring scheme. I assure you that if such a scheme is not implemented I will resign from the Supervisory Council of SOE" (telephone interview, 12 October 1995).

Finally, the third certified auditor of SELE took a more unifying stance (trans.): "... I believe that the generality of professionals have upgraded the quality of their services after the liberalisation" (interview, 9 October 1995). He further suggested that, if there were a few cases of sub-standard auditor performance, the Supervisory Council of SOE should tackle the issue.

5.4 Financial Executives

Five financial executives were interviewed in the researching of this study. There was a general agreement among these interviewees in relation to the state of the auditing profession following liberalisation. The interviewees considered that statutory auditing had become a very intensive exercise, and that the civil servant mentality which some members of the old SOL showed had disappeared. Another point raised was that in the post liberalisation period, financial executives viewed auditors more as partners, advocates, or consultants, as opposed to policemen in the past. A third point was that auditor independence had become compromised (trans.): "... auditors are now ready to swallow many things in order to secure re-appointment" (interview, 5 October 1995).

One interviewee willingly admitted that he had biased his responses to the questionnaire (trans.): "... to be honest with you, I was too lenient in my marking. Most of my marking was zero, but for most functions I should have put -2 or -1" (interview, 24 September 1995). The interviewee explained that for him it was not simply a matter of protecting the new arrangement of the auditing profession: "... it is also difficult to give a negative picture for the auditor I am associated with" (ibid.). A second interviewee also accepted that he had been lenient, but he avoided giving further explanations. Two interviewees suggested that they had been objective in their responses to the questionnaire.

When the results of the mail survey were presented to interviewees all suggested that the common denominator in the responses of all groups was the occurrence of self-interested bias, and that each group attempted to advance its own perspective. It is interesting that all the interviewees in this group clearly suggested, after some discussion, that not only auditors but also financial executives, as a group, had biased their responses to protect the new status quo of the auditing profession.

More revelations concerning the occurrence of self-interested bias in the responses of financial executives, however, were derived from an interview with a senior administrative executive of

an audited company. The researcher had sent a questionnaire to this company addressed to the Chief Financial Executive (CFE). The CFE had signed and returned the questionnaire having marked zeros for all 23 questions (trans.):

"... They (corporate financial executives) have not simply biased their responses. They have intentionally lied in order to protect the new arrangement in the profession, because their job has been greatly facilitated. I saw the questionnaire Mr X (the CFE) returned to you. He marked zeros for all questions, ostensibly nothing has changed for him. A few days later at a company meeting for the annual financial statements he jubilantly announced to Mr and Mrs Y (the main shareholders): 'There is no problem any more with the auditors. I can pass almost anything we want. It suffices to tell them that their appointment is reconsidered'. You see now why they say nothing changed. They want to give the message that we (the companies) have always been within the law" (interview, 3 October 1995).

6. The Views of Users of Audit Reports and Other Interested Parties

So far in this chapter the views of auditors and corporate financial executives have been examined. In this section personal interviews are used to identify the views of the users of audit reports and other interested parties. First, the views of bankers and tax inspectors on how liberalisation impacted on auditor behaviour in relation to certain audit functions are presented. Then, the views of one eminent financial journalist, two knowledgeable individuals, and two politicians about the state of the auditing profession in the post liberalisation period are described.

6.1 Bankers and Tax Inspectors

The results of personal interviews with bankers and tax officials revealed a great similarity in opinions. Interviewees stated that they had formed their opinions on the basis of their daily experiences as bankers and tax inspectors respectively. Two bankers noted that they had discussed the state of the auditing profession with colleagues from other banks, with whom they held shared views. Further, two tax inspectors said that they had, on an informal basis, exchanged views about the liberalisation of the auditing profession with senior corporate executives. Generally, all interviewees appeared to have an informed view, in relation to the subject matter of the interviews and felt confident to talk about the issues raised.

In relation to the function of protecting the interests of shareholders (Q1) both bankers and tax inspectors made a distinction between small minority and large majority shareholders. Interviewees perceived more emphasis to be given in the case of large shareholders who controlled auditor appointment, and less emphasis in the case of small shareholders with no representation in company management. It is interesting that a number of SOL SA auditors had made a similar distinction in their comments on the questionnaire.

Bankers and tax inspectors alike perceived that auditors gave significantly less emphasis to functions relating to the protection of interests of other stakeholders (Q2, Q3, Q4). Interviewees suggested that this was a result of auditors giving priority to serving the interests of shareholders who controlled their appointment, and explained that there was usually a conflict of interest between shareholders and other stakeholders. A banker added that in his view, following liberalisation, auditors simply tried to be formally covered, if a legal dispute erupted, rather than paying attention to substance.

The 'true and fair' presentation of financial statements (Q7 and Q13) was another area of functions for which bankers and tax inspectors suggested that since liberalisation auditors gave considerably less emphasis, with the exception of one banker who indicated that there was not a clear change. Interviewees also agreed that auditor independence (Q17) had become a major issue after liberalisation, as auditors became economically dependent upon companies, and in many cases they had become corporate cat's paws.

In a similar vein, public communication of audit findings (Q14 to Q16, and Q20) was another set of audit functions for which bankers and tax inspectors perceived that auditors attached significantly less emphasis since liberalisation. In relation to writing remarks in published reports, all interviewees suggested that critical and significant remarks had become extinct from the published reports (trans.): "... The format of the report did not change, but it is the substance that is missing now" (interview with a tax inspector, 22 September 1995). Interviewees further suggested that insignificant remarks which could not create problems to

clients continued to appear in published reports. They also noted that the language of the remarks had become very soft. A banker went on to argue that, in the long run, any type of comment could disappear from published reports, as was the case in the UK or in the USA (interview, 26 September 1995). Relative to 'whistle blowing', tax inspectors clearly perceived significantly less emphasis, while bankers said that they could not express an opinion. A significant decrease in 'whistle bowing' on tax issues after the liberalisation was confirmed by a competent public servant at the Ministry of Public Finance (interview, 28 September 1995).

There are three areas in which bankers and tax inspectors did not express a clear opinion as to whether auditors placed different emphasis to the relevant audit functions since the liberalisation. First, relative to the question whether company administration has complied with company law, the articles of association, and 'rules of proper administration' (Q5 and Q6), most interviewees suggested that either they did not have an opinion or that there was not a noticeable change. Second, with respect to searching for and reporting fraud (Q18 and Q19), bankers suggested that they were not in a position to express an opinion, while tax inspectors stated that they perceived a rather small increase in emphasis for these functions. Third, regarding a company's compliance with specific legislation (Q8 to Q12 - e.g. labour, insurance, or tax legislation), interviewees suggested that they did not have a clear picture. Most of them, however, made the same general comment that auditors gave more emphasis to a specific function, if a company required it, while they gave less emphasis to other functions.

Both bankers and tax inspectors, concurring with auditors and financial executives, perceived a very considerable increase in emphasis for MAS related functions (trans.): "... This is where the gravity of external auditing has moved to", a tax inspector explained (interview September 22, 1995). Another tax inspector noted that (trans.): "... in certain cases the term 'consultancy services' is a euphemism for covering up company problems" (interview, 20 September 1995). The provision of MAS by an auditor appeared more acceptable to bankers who argued that audit firms could offer companies much needed sound economic advice. However, one banker

expressed concerns that this practice could, in the long run, add to the problem of independence.

Bankers and tax-inspectors were also questioned concerning whether they perceived that there was a difference between type A companies (listed, banks, and insurance) and type B companies (any other type of companies), in relation to the emphasis auditors attached to audit functions. Interviewees generally agreed that there was only a small difference. More specifically, they perceived that the decrease in emphasis for type A companies was somewhat smaller compared to type B companies, though still significant. The interviewees were also questioned whether they perceived any difference between the three auditor groups in relation to changes in emphasis which auditors attached to audit functions following liberalisation. Again, there was a general agreement that no real difference existed. One tax inspector suggested that the lower ranking personnel of international audit firms were relatively inexperienced, and that auditors from these firms did not have a good understanding of relevant Greek legislation. He noted, though, that international audit firms were trying to correct this weakness by, among other things, hiring auditors from SOL.

The results of the mail survey were presented to the interviewees and their comments were invited thereon. All interviewees suggested that the divergence of opinion between the four groups of respondents (corporate executives, and SOL, EX-SOL, and SELE auditors) could be explained as a result of self-interested bias. Interviewees appeared to suggest that the view of SOL SA auditors was closer to reality, although some of them mentioned that in some cases SOL SA auditors might have overstated their negative markings, as they felt bitterness because of the loss of power and job insecurity the liberalisation caused them. Bankers and tax inspectors also made particular reference to the interests of audited companies and corporate financial executives (trans.):

"... The new organisation of the auditing profession favours the interests of (audited) companies. Audit fees have been significantly reduced and auditors are now controlled. The two parties (auditors and companies) have now come very close. I was approached by a businessman for a loan to his company. I asked for some additional financial information and he suggested that his auditor - not his accountant - would give me what I needed. Such incidents are frequent. I want to

ask: *is this the role of auditors?*" (interview with a banker, 24 September 1995).

6.2 A Financial Journalist and Knowledgeable Individuals

The views expressed by one journalist and the two knowledgeable individuals¹⁰ were very similar to those expressed by bankers and tax inspectors. All interviewees emphasised that statutory auditing had suffered a severe downgrading after the liberalisation and suggested that the functions most affected related to public communication of audit findings, protecting the 'public interest', and auditor independence. They explained that the situation was mainly due to fierce and unfair competition between audit firms and the lack of any effective monitoring of auditor performance. They were particularly critical of the set up of the Supervisory Council of SOE, and suggested that this organ should be really independent of the people over which it had the authority to monitor and discipline.

The interviewees explained that they had formed their views on the basis of discussions which they had with certified auditors. Individuals A and B said that they had contacts with SOL SA and EX-SOL auditors. The journalist had contacts with all three professional groups (trans.):

"... Auditors from all three groups come to see me or call me on the phone. Talking of the record, most of them say that they are making more money since liberalisation, but they are concerned about the future of the profession. Even auditors from SELE have told me that there is a problem of reliability for published audit reports. In general terms, all groups of auditors agree that statutory auditing is in a state of crisis nowadays" (interview, 2 October 1995).

The interviewees further suggested that the provision of consultancy services had become the centre of audit activity. The journalist and individual A suggested that the provision of such services was legitimate, as long as such services aimed at helping companies to improve their efficiency and effectiveness and to achieve a competitive advantage in the global market. They did, however, express concerns that consultancy services might, in a number of cases, simply entail covering up unlawful acts by audited companies. Finally, all interviewees attributed the

¹⁰As has been explained, the two knowledgeable individuals, one retired certified accountant and the other an eminent technocrat, had served as members of the Supervisory Council of SOL prior to the liberalisation.

divergence of opinion among the mail survey respondent groups to the occurrence of self-interested bias.

Interesting insights were gained from the interview with individual A (trans.):

"... I believe that the party spirit (party politics) which was introduced in SOL in the 1980s weakened its defence. As a result, the Institution (SOL) fell when the right man (Mr Manos) came to the right post (Ministry of National Economy). Personally, I favoured the gradual and controlled opening-up of the profession, with mindful and well planned steps. However, the sort of liberalisation which was effected seems to have destroyed, according to the information I have received, what had been built during the last 40 years. I am not sure about the long term effect of liberalisation, but there is a danger that certified auditors will become like the 'law 2190 auditors'. The big issue is that the developments in the auditing profession are irreversible" (interview, 29 September 1995 - my brackets).

The interview with individual B provided an interesting insight into the operation of bias. The interviewee is known to be affiliated with the partners of an EX-SOL audit firm which supports liberalisation. The interviewee initially suggested that the transition to a liberal profession was not as yet complete, and argued that little had altered in auditing with the exception of MAS related functions. The interviewee perceived that auditors placed greater emphasis on the latter functions since liberalisation. However, following a long probing discussion the interviewee appeared to change his mind (trans.):

"... To be honest with you, the profession is in a state of crisis. They (auditors) don't write a single critical remark in the reports any more. They are in agony to secure clientele. There is fierce competition and price war. They sign off reports for Drs300,000 (£780) which sometimes includes preparing the financial statements" (interview, 11 October 1995).

He then went on to describe a conversation he had had with a bank official (trans.):

"... I was chatting with the chairman of a bank sometime ago about the profession. I told him: '... this is not a profession, rather this is a brothel'. He replied: '... No, this is something worse. In a brothel, there are rules you have to follow, and a madam to run the place. In the case of the profession, no rules are applied and there is no madam in charge' " (ibid.).

6.3 Politicians

As stated earlier in chapter four, two of the politicians who played a key role in the liberalisation of the Greek auditing profession in 1992 were interviewed for the purpose of this thesis (Mr Xarchas and Mr Manos, Ministers of Commerce and National Economy respectively). Among other issues discussed in the interviews was the impact which the liberalisation might have had on auditor behaviour. Mr Xarchas, who generally adopted relatively moderated position in relation to the liberalisation debate, expressed a tentative view thus (trans.):

"... I cannot say with confidence what was the effect of liberalisation, as I am not in the Ministry any more. I believe yes ... there is a change in the conduct of audits ... towards less hindrance on business activity, rendering better services, fair competition between auditors ... to do their job well, that is, to understand that they are not the boss of the company" (interview, 6 October 1994).

On the other hand, Mr Manos, as could be expected, suggested that the liberalisation greatly upgraded audit practice in Greece (interview, 28 December 1995). The interviewer probed Mr Manos that there was some concern about auditor independence, and that there was also evidence which suggested that auditors were pressurised by companies not to write remarks in published reports. In response, Mr Manos suggested that gradually the auditing profession would be in a position to conduct essential audits and emphatically stated (trans.): "... (in relation to independence) I don't think there is now much difference between Greece and what is happening abroad ... where I acknowledge there is a problem. However, it was by no means better before (the liberalisation) ... by no means ... I don't believe this" (ibid.).

Further, Mr Manos argued that local branches of international accounting firms (that is, SELE auditors) generally conducted high quality audits compared to other auditors. He also attempted to discredit SOL SA auditors by saying that the most respected and capable members of SOL had left the institute and established their own audit practices (EX-SOL). The last question which Mr Manos was asked, was how he saw the future of the auditing profession in Greece. To this, he replied: "... Brilliant" (ibid.).

6.7 Summary and Conclusions

This chapter has presented results from a research survey concerning the question whether the liberalisation of the Greek auditing profession impacted on the emphasis which auditors gave to a number of audit functions. Using mail questionnaire and personal interviews the views of three parties were surveyed; corporate financial executives, auditors, and users of audit reports and other parties interested in the affairs of the Greek auditing profession.

Based on the results of the mail survey financial executives appeared to hold the view that the liberalisation did not have any effect for 'ordinary' audit functions (Q1 to Q20). These functions are described in the legal framework of auditing in Greece, and auditors are expected to perform them in order to express an opinion on a set of financial statements. Further, three variables, type A companies vs. type B companies, family companies vs. non-family, and group of appointed auditor were found to have only weak relationship in financial executives' perceptions, and only concerning a small number of 'ordinary' audit functions. In contrast with 'ordinary' audit functions, financial executives perceived a significant increase in emphasis in relation to MAS audit functions.

Considerable divergence was found in the perceptions of the three groups of auditors. SOL SA auditors perceived a significant decrease in emphasis for most 'ordinary' audit functions. The most heavily affected functions were presumably related to protecting the interests of other stakeholders, public communication of audit findings, and being independent. SOL SA auditors further argued that the negative effect of liberalisation on 'ordinary' functions was generally larger for type B companies vs. type A companies. EX-SOL auditors seemed to suggest that there was only a small negative effect, limited on functions related to public communication of audit functions and being independent. The distinction between type A and type B companies appeared to be of little, if any, relevance for EX-SOL auditors. At the extreme, SELE auditors appeared to hold the view that the liberalisation had a positive effect for the majority of 'ordinary' audit functions. The most profound effect was perceived on

functions presumably related to protecting the interests of both shareholders and other stakeholders, to 'true and fair' presentation of financial statements (the 'real picture'), and to writing remarks in published reports. SELE auditors clearly suggested that there was no difference between type A and type B companies.

Only in relation to MAS audit functions was there a certain degree of convergence between the auditor groups. All three groups of auditors perceived a significant increase in emphasis for these functions although there was still some disagreement about the magnitude of the change perceived.

While a mail survey was the main instrument used to elicit the views of auditors and financial executives, the views of users of audit reports and other parties interested in auditing were surveyed through a number of personal interviews. With the exception of politicians who conceived of liberalisation as a positive step, users of audit reports and other interested parties suggested that a significant negative change in emphasis concerning 'ordinary' audit functions followed the liberalisation of the auditing profession. They perceived that auditors gave significantly less emphasis to functions relating to areas such as protecting the interests of external stakeholders, 'true and fair' presentation of financial statements (the Greek 'real picture'), public communication of audit findings, and being independent. Further, it was suggested that the decrease in emphasis for 'ordinary' functions was rather larger for type B vs. type A companies, and perceived no essential difference between the three groups of auditors. In a vein similar to auditors and financial executives, users of audit reports and other interested parties perceived a significant increase in emphasis regarding MAS related functions.

Figure 6.2 (see next page) presents the basic views of the respondent groups to the survey (auditors, corporate financial executives, and users of audit reports and other interested parties). The initial 23 audit functions have been grouped into 9 conceptual clusters. The value of this table lies in the fact that it clearly depicts, in a summary form, the similarities

and differences of the views expressed by the groups of respondents (politicians are not included in this table).

The empirical research of this thesis did not stop at eliciting the views of respondents. It went a step further in that it attempted to understand and explain the apparent divergence in perceptions between the various groups. This research has succeeded in unveiling the inherently political nature of the affairs of the Greek auditing profession. Comments received during the mail survey, and particularly data from the personal interviews with members of all respondent groups, constitute firm evidence that, in the responses of financial executives and auditors to the mail survey, bias occurred to a considerable degree. It is interesting that all interviewees almost exclusively attributed the divergence of opinion between respondents to the occurrence of such bias.

Figure 6.2: *A Summary of the Views of Respondent Groups*

	users and others	Auditors			Financial executives
		sol sa	ex-sol	sele	
Protect the interests of shareholders (Q1)	+ / - *	0	0	+	0
Protect interests of external stakeholders (Q2, Q3, Q4)	-	-	0	+	0
Company administration in accordance with company law, art. of association, rules of proper administration etc. (Q5, Q6)	unclear	-	0	+	0
Company has complied with specific legislation (Q8, to Q12)	unclear	-	0	0	0
Search and report fraud (Q18, Q19)	unclear	0	0	+	0
Financial statements are 'true and fair' (Q7, Q13)	-	-	0	+	0
Public communication of audit findings (Q14, Q15, Q16, Q20)	-	-	-	0 / + **	0
Being independent (Q17)	-	-	-	+	0
MAS related functions (Q21 to Q23)	+	+	+	+	+
n	12	152	27	59	250

Notes 1) A minus/plus/zero indicates a perceived decrease/increase/no change in emphasis.

2) The views of auditors and financial executives in this table were elicited through a mail survey and the views of users of audit reports and other interested parties through personal interviews.

3) The users and others includes bankers, tax inspectors, a financial journalists, and knowledgeable individuals. The views of the two politicians are not included.

* Plus is for large majority shareholders and minus for small minority shareholders.

** Zero is for whistle blowing and plus for writing remarks in published reports.

In relation to the view of corporate financial executives expressed in the mail survey that the liberalisation of the auditing profession had no impact on 'ordinary' audit functions, the evidence gathered clearly suggests that a bias has occurred. Interviewees explained this bias as an attempt by financial executives to protect the liberalised profession. It was suggested that certain material interests of both financial executives and audited companies were better served under the liberalised auditing profession.

The occurrence of a very significant bias was put forward to explain the extremely positive view of SELE auditors. The evidence suggests that members of this group had material reasons to support the new organisation of the auditing profession which they had fought for over a long period. A secondary explanation was that members of SELE did not have a clear and accurate picture of SOL audits, on which to base their judgement in answering the questionnaire. Evidence of bias was also gathered in the case of EX-SOL auditors, who expressed a slightly negative, or rather neutral, view. In contrast, no clear evidence for bias was found in the negative and gloomy view of SOL SA auditors. However, a number of interviewees suggested that SOL SA auditors might have overstated their negative markings in their responses to the mail survey, as they felt embittered over the loss of power and job security which they had enjoyed prior to the liberalisation.

From a more practical point of view, taking into consideration the above analysis and using the views of users of audit reports and other interested parties as corroborating evidence, six brief conclusions can be drawn as to the impact of liberalisation on the emphasis which statutory auditors gave to various audit functions (see figure 6.3). First, there is a striking agreement among all the respondent groups that after the liberalisation auditors gave considerably more emphasis to providing Management Advisory Services to audited companies.

Second, there is compelling evidence that following liberalisation auditors gave significantly less emphasis to two groups of functions: 1) being independent from audited companies, and

2) public communication of audit findings. The latter comprise two specific tasks, writing remarks in auditors' reports when appropriate, and 'whistle blowing' on various issues.

Third, there is strong evidence to suggest that auditors attached significantly less emphasis to two other groups of functions: protecting the interests of other stakeholders (non-shareholders) and the 'true and fair' presentation of financial statements.

Fourth, there is also some evidence to suggest that, after the liberalisation, auditors accorded more emphasis to protecting the interests of large shareholders who control company management and auditor appointment, but less emphasis to protecting the interests of small shareholders with no representation in company management.

Fifth, the evidence gathered does not lead to clear cut conclusions as to whether there was a change in emphasis to functions relating to the following three topics: 1) search and report fraud, 2) compliance with specific legislation (labour, national insurance, tax, accounting plan, and other legislation), and 3) company administration in accordance with company law, articles of association, and 'rules of proper administration'. It should be noted, however, that some evidence implied that auditors might have given more emphasis to a specific area at the request of the audited company, while they might have given less emphasis to other functions.

Sixth, there is some evidence to suggest that the change in emphasis attached by auditors to various audit functions was not as large for type A companies (public interest companies - insurance, banks, and listed companies), as it was for type B companies (any other kind of companies). The evidence also shows that there was not a real difference between the three auditor groups SOL SA, EX-SOL, and SELE, in relation to changes in emphasis attached by auditors to audit functions. The six conclusions are summarised in figure 6.3 (see next page).

Figure 6.3: *The Impact of Liberalisation on Auditor Behaviour*

<u>Audit Area/Function(s)</u>	<u>Change in Emphasis</u>		
	<u>increase</u>	<u>decrease</u>	<u>inconclusive</u>
Protect the interests of majority shareholders	√		
Protect the interests of minority shareholders		√	
Protect the interests of external stakeholders		√	
Financial statements are true and fair		√	
Public communication of audit findings		√	
Being independent		√	
Search for and report fraud			√
Attendance to specific legislation, articles of association etc.			√
Management Advisory Services	√		

This chapter has presented the results of the survey concerning the question whether the liberalisation of the Greek auditing profession in the early 1990s impacted on the emphasis auditors gave to certain audit functions. The main conclusions of the survey outlined above may have very considerable implications for audit practice. The importance of these conclusions, not only for the Greek but possibly for the international auditing profession too, is discussed in the following concluding chapter.

CHAPTER SEVEN

CONCLUSIONS

1. A Résumé of the Study

The theme of this study has been corporate external auditing in Modern Greece, a subject which has received only scant attention in accounting academic research. Following the critical tradition, an historical account was presented of the emergence, development, and current state of the Greek auditing profession, within its wider social, economic, and political contexts. Change in the institution of Greek auditing was presented and explained as the combined outcome of a number of structural factors and the action undertaken by interested parties. Particular attention was given to analysing and explaining the circumstances and events that led to the liberalisation of the Greek auditing profession in 1992, and the impact which these audit reforms have had on auditor behaviour. By examining the latter, the study has offered insights to the way in which liberalisation impacted on professional work itself, and how organisational and structural change affected the relationship between client and professional.

As was explained in the introductory chapter, the critical perspective incorporates two main pillars of research methodology. First, historical analysis, and second, attention to both, human action and structural factors as drivers of social change. In the context of this study, historical analysis has been applied to analyse and explain key events and the mechanisms of change in the developing projectory of corporate auditing in Greece. Attention to the role of human action and structural factors facilitated the examination of the impact which prevailing social, economic, and political conditions have had on the development of the Greek auditing profession. The roles of state actors, the prevailing political ideology, domestic organised economic interests, and international economic and political organisations were considered. This methodological approach also facilitated the examination of the objectives and strategies of the rival accounting groups, SOL, SELE, and EPEL in the liberalisation discourses.

Further, the critical accounting perspective has accorded a central role to the state in the emergence and development of the accounting profession. The state-profession relationship

has been theorised as context specific, historically dynamic, and fluid. Finally, the critical paradigm has depicted accounting associations as primarily political bodies who seek to advance and promote the interests of their members. The political and self-interested nature of Greek accounting groups was evidenced in the discourses advanced during the liberalisation debate, as well as in the responses to the survey on the potential impact of liberalisation on auditor behaviour.

The analysis identified two major periods in the history of accounting regulation in Modern Greece, and each was associated with particular economic and socio-political circumstances. The *laissez-faire* period of 1821 to 1918 was associated with limited capitalist development, a general lack of state intervention in the management of the economy, and with oligarchic politics. The following period of increasing state intervention from 1918 to date was characterised by considerable industrial and economic development, the democratisation of the political system, and a move towards direct state intervention in the management of the national economy.

The origins of corporate external auditing were traced to legislative initiatives of the interventionist era. Despite the legislative initiatives of the 1920s and 1930s, effective corporate auditing was not implemented. These abortive attempts aimed at improving corporate governance and accountability, in the context of a broader attempt by the Greek state to bolster the economic development of the country. The creation of the Greek auditing profession via the establishment of SOL in 1955 was explained as a consequence of the state's attempts to encourage economic development in the aftermath of a ten-year period of war. It has been revealed that the Greek auditing profession did not emerge as the result of "collegiate control" or "corporate patronage", but as the brainchild of "state mediation" (Johnson, 1972, p. 45). It was shown that the establishment of SOL was also deemed necessary and approved by international economic agencies which wanted to secure the proper use and repayment of reconstruction aid and loans (mainly the Marshall Plan) granted to Greece in the post World War II period.

SOL was established as a quasi-state auditing organisation with centralised control over audit assignments. The analysis showed that SOL had several of the traits of a corporatist intermediary or governing institution. SOL, as a profession, was under state patronage and was subjected to state supervision and control in relation to leadership selection, interest articulation, and policy formulation. The single most important characteristic of SOL's operation was the protection of the 'public interest', which legislation was assumed to promote. This public service orientation of SOL was not only dictated by law but also nurtured by the ideology promoted by SOL among its members. According to this ideology, auditor members of SOL were the guardians of the law. However, SOL was not part of the state proper, and enjoyed an independent legal status and personality. In return, SOL enjoyed a *de jure* monopoly of practice, and was thus effectively protected from competition.

The analysis has shown that, from the early years after the inception of SOL in 1955, a struggle started for the liberalisation of the newly organised profession. In addition to SOL, various associations of the wider accounting establishment took part in this struggle. The main accounting group which challenged SOL's position was SELE, the association of 'big six' auditors. Representative associations of the business community also became involved in the liberalisation debate, in favour of liberalisation. It appears that the views and interests of the wider business community were not sufficiently accommodated or represented in the existing institutional arrangements of the auditing profession.

During the period from 1955 to 1990, SOL managed to preserve the existing organisation of the profession and expand its legally protected monopolistic position in the market for statutory audit services. SOL's strategy principally aimed at maintaining and enhancing the reciprocal corporatist relationship with the state. SOL actively assumed the role of watchdog over audited companies and actively protected the 'public interest'. Initially, SOL's strategy proved successful, and SOL managed not only to preserve, but also to extend its jurisdiction in the period from 1955 to 1990.

The liberalisation of the Greek auditing profession took place in 1992, following the successful lobbying of the incumbent conservative government by SELE. SELE was eagerly supported by SEV (the Confederation of Greek Industries - trans.) in its attempt to effect a radical reform of the existing organisation of the auditing profession. SELE also managed to mobilise considerable international support for its cause. Among the international actors which assisted SELE was the Institute of Chartered Accountants in England and Wales, a number of international economic organisations, and some foreign governments which pressured the Greek government to reform the organisation of the auditing profession in Greece.

In order to liberalise the auditing profession, the Greek government passed a succession of legislative enactments through the Parliament. The analysis has shown that the government had not worked out a detailed and organised plan for the reorganisation of the profession. However, the strategic objective which was systematically and tirelessly pursued by the government was clear: to liberalise the profession and, at the same time, recognise members of SELE as statutory auditors. To this end, the state legislative machinery was expeditiously used to satisfy the needs and wants of the most influential members of SELE. The essential objective of the liberalisation was to introduce competition between auditors in the market for statutory audits. Auditor appointment and fee determination became a matter to be negotiated freely between auditors and audited companies. Further, members of SELE and a few other accountants were recognised as statutory auditors.

The reform of the Greek auditing profession proved a highly contentious political issue and caused a sustained public debate. The government's policy towards auditing met with severe resistance from SOL and the political opposition. It also incited the outrage, indignation or remonstrance of the academic community, eminent individuals, employees associations, and the media. However, the government showed firmness of intent and determination, and went ahead with their liberalisation measures. SOL was abolished and SOE, the new institute of certified auditors, was established in 1993. It is important to note that although audited

companies did not assume any formal role in the new institutional arrangements, the changes effected fully reflected their preferences over the structure and operation of the auditing profession.

The analysis has revealed that the nature of the intra-professional struggle should be understood in its wider socio-political context, in which the state played a key role. The central role of the state in the development of the Greek auditing profession might be expected given that in Greece, and in other continental European countries, it is the state which traditionally is the major effector of legitimate social change (Burrage and Torstendahl, 1990; Torstendahl and Burrage, 1990). The years 1955 to 1990 were a period of increased state intervention in the economic sphere and tight state control over private companies. As a consequence, the failure of all attempts at liberalisation during this period was not purely a function of successful lobbying by SOL. Rather, it was a symptom of wider political and economic conditions and specific needs and priorities of the state policy. This policy favoured an organisational form of the auditing profession which was geared to the advancement and protection of the 'public interest' and the performance of specific state functions.

Similarly, the passing of legislation which provided for the liberalisation of the Greek auditing profession in 1992 was concurrent with a dramatic change in the general economic and political climate of Greece: a marked shift in the policy of the state towards deregulation, privatisation, and 'less state', emanated from a newly prevalent political ideology of liberalism. These dramatic changes on a New Right agenda aimed at assimilating Greece into the global market economy, and favoured an institutional reform towards liberalisation in the market for statutory audits. As a measure of the sea changes in political ideology in post-Second World War Greece, it is worth noting that the same conservative party was in power when SOL was established in 1955 and abolished in 1992; the minister who introduced law 3329/1955 which established SOL in 1955 was the head of the government in 1992.

A number of accounting scholars have seen accounting as mirroring the society in which it operates (Gandhi, 1976; Rose, 1977). It is suggested that feudal societies need feudal accounting systems, or that capitalist societies need capitalist modes of accounting (*ibid.*). In the context of this study, the above argument could be extended to suggest that the transition of the Greek economy from closed and state regulated towards liberal and competitive required the transformation of the auditing profession from state regulated to liberal and competitive.

The analysis of the development of the Greek auditing profession offered here has exemplified the deeply political nature of its affairs. Rival professional accounting groups were shown to be primarily political bodies who sought to occupy, extend or defend their jurisdiction in the market of corporate statutory audits. SOL advanced functionalist and generally 'public interest' arguments to repel attacks on its monopolistic position. Similar functionalist and 'public interest' arguments, albeit from the opposite direction, were advanced by SELE and EPEL in their usurpatory tactics. It would appear that the use of functional arguments by accounting groups in their attempt to gain legitimation is common to professional organisations in different times and locales (Robson and Cooper, 1989, p. 370; Walker, 1991, p. 166).

The political character of Greek corporate auditing was made clear from the examination of its political organisations, through the analysis at the macro-level. However, the political nature of Greek auditing was also revealed from the analysis at the micro-level. The results of the survey of the perceptions of individual auditors, financial executives, and users of audit reports and other interested parties in relation to the effects of the liberalisation on auditor behaviour produced ample evidence on the political and self-interested nature of Greek auditing. As discussed in the previous chapter, there was a significant divergence in the responses of financial executives and the three auditor groups, not only in terms of the perceived magnitude of change but, most importantly, in terms of the direction of change. Comments received during the mail survey, and particularly data from the personal interviews

with members of all respondent groups, unveiled the inherently political nature of the affairs of the Greek auditing profession and its socially constructed and contextually dependent character. The evidence suggests that considerable bias occurred in the responses of financial executives and auditors to the mail survey. The findings show that, through their responses to the mail survey, financial executives and conflicting auditor groups attempted to advance the interests of their own institutional affiliations.

The deeply political nature of Greek auditing is also evidenced in a series of post-liberalisation episodes, in the context of an abortive attempt to re-institute SOL. These episodes, which took place when the socialist government of PASOK came to power in October 1993, confirm and highlight the political nature of the affairs of the Greek auditing profession and the influence of international parties upon it.

The change of government of October 1993 caused much optimism among the ranks of SOL because it was expected that all liberalisation reforms would be nullified. However, the high expectations of members of SOL which had been nurtured¹ by PASOK were soon frustrated as the new government procrastinated, apparently because of SELE's lobbying (interview with a leading CPA of SOL, 31 January 1994). In addition, the government was under pressure from SEV (the Confederation of Greek Industries) to protect the post-1992 institution of auditing (letter to the Ministry of National Economy Mr Genimatas, see *Naftemporikie*, 18 January 1994).

Nevertheless, SOL attempted to persuade the Government to honour their pre-election commitments to reverse the 1992 measures. As a first result of this pressure, on 1 March 1994 the government appointed a new Supervisory Council to SOE, in which SOL SA now had a clear majority (*Eleftherotypia*, 2 March 1994). It took several months of further

¹It was not only the support PASOK had given to SOL during the debate in the Parliament over the liberalisation of the auditing profession that justified these expectations; before the elections of October 1993, a number of senior PASOK cadres had explicitly committed to rectifying all detrimental changes introduced to the auditing profession by the government of New Democracy (interviews with two senior members of SOL identified with the political party of PASOK, 31 January 1994).

intensive lobbying by SOL (interview with a leading member of SOL SA, 31 August 1994) for the government to decide on changing the legislative framework of auditing. On 4 August 1994 'Article 18' of law 2231/1994 was passed through the Parliament (*Government Gazette*, A/139/31-8-1994), notwithstanding fierce resistance by the New Democracy Party (the previous conservative government which had liberalised the profession, see Parliamentary Meetings, 4 August 1994). Among other things, 'Article 18' provided that professionals from outwith SOL (predominantly members of SELE) should now take written qualification exams, and that a new Presidential Decree would regulate the transformation of the old SOL (the institute of law 3329/1955) into a 'primary national audit organisation'.²

It seems that 'Article 18' was a great embarrassment to SELE, particularly the requirement for its members to take written exams.³ Immediately after the passing of 'Article 18', SELE tried to lobby the Government to change the legislation anew, and was soon successful. In November 1994 'paragraph 2, article 3 of law 2257/1994' (*Government Gazette*, A/197/23-11-94) was passed which stated that candidates standing for the rank of certified auditor, in effect the most influential members of SELE, would be exempted from the exams prescribed by 'Article 18'. Instead, the qualifications of these professionals would be examined by the Supervisory Council of SOE. The new legislation also contained a proviso which, in effect, was the price which SELE had to pay in exchange for the new abrogation of written exams for its senior members.⁴ According to this proviso, all organisations of the public sector as well as banks, insurance, and listed companies should appoint at least one statutory auditor from the re-instituted SOL. Thus, it appeared that the new legislation encouraged the appointment of joint auditors; SOL and international audit firms. However, from a practical point of view,

²The meaning of this term was to be clarified in the Presidential Decree which would follow.

³SELE's great concern about the exams was suggested to the researcher by a CPA of SOL and member of the Supervisory Council of SOE to whom a leading member of SELE complained when 'Article 18' was passed (interview, 4 October 1994).

⁴It is worth noting that there were rumours that a deal had been secretly made between SELE and one or two leading members of SOL SA (interview with two members of SOL SA, 10 January 1995). In exchange for the new amendments of 'Article 18', SELE would not oppose the rest of the changes introduced by 'Article 18' and, more specifically, the transformation of SOL into a 'national audit organisation'.

this regulation gave a very significant advantage to SOL, as it secured audit assignments for its members.

SELE eventually mobilised considerable international support in its attempt to nullify the prerogatives of the re-instituted SOL. It seems that there was mounting pressure on the Greek government by the USA and European governments, and the Organisation for Economic Co-operation and Development (*Vima*, 8 October 1994, p. E2; *Financial Times*, 14 November 1995, Supplement, p. v). In addition, the European Commission threatened to appeal against Greece at the European Court (*Kerdos*, 29 December 1994, p. 10). It seems that this pressure was fruitful. On 2 August 1995, the Parliament passed yet another *tropologeia*, which became 'Article 13' of law 2330/1995 (*Government Gazette*, A/172/22-8-1995). This fresh legislation prescribed that SOL's privilege with respect to the audit of public sector organisations, banks, insurance, and listed companies would end on 1 July 1997. The Minister of National Economy (Mr Papantoniou) stated during the parliamentary debate on 'Article 13' that he removed SOL's privileges because of severe pressure from international organisations and a number of foreign governments⁵ and that: "... it was eventually proved that the previous provision directly contravened Greece's international commitments" (Parliamentary Meetings, 2 August 1995). As could be expected, the debate in the Parliament gave opposition Deputies, among them Mr Manos, a golden chance to pillory the government (*ibid.*).

Following the legislation of 'Article 13', SOL continued to pressurise the government to issue the long awaited Presidential Decree which would transform the old SOL into a 'primary national audit organisation'. After further delay, a draft Presidential Decree was introduced to the Council of State for a preliminary examination of its legal propriety in November 1995. On December 17 1995 the Council of State issued its opinion which stated that key provisions of the draft legislation, among them those relating to SOL's prerogatives, were unlawful

⁵Mr Papantoniou specifically mentioned USA, Canada, the governments of the other fourteen European Union states, the Organisation for Economic Co-operation and Development, and the International Trade Organisation.

(interview with Mr Manos, 28 December 1995; telephone interview with a leading member of SOL SA, 17 May 1996).

It seems that the above decision of the Council of State gave the *coup de grace* to SOL SA's aspirations and hopes, or at least those of its leadership, of re-instituting SOL. It became clear that such attempts not only lacked sufficient political support, but also that there was no legal basis for them to materialise.

In conclusion, the findings of this study confirm the relevance of the critical paradigm for analysing the accounting profession. Greek professional accounting groups were revealed as primarily political and self-interested bodies who attempted to constitute and control a market for the services offered by their members, and who attempted to transform their professional knowledge and expertise into social and economic rewards. Further, the Greek auditing profession, its history and organisation, was shown to be the outcome of a dynamic interaction of economic, social, and political interests, at both the national and the international level. In the encounters between these interests, state agencies and professional groups played a prominent role. In this vein, the liberalisation of the profession in 1992 cannot be justified simply on technical, rational, neutral, or scientific grounds, but should rather be viewed as the outcome of a political struggle between interested groups, against the background of contemporary socio-political conditions of the country. Thus, change in the institution of Greek auditing was presented and explained as the combined outcome of structural factors and action undertaken by interested parties.

Finally, this study has important methodological implications for accounting research in politically charged contexts. The evidence presented here suggests that the use solely of mail questionnaires in such contexts is not appropriate, as this research tool, by itself, fails to capture important exogenous factors which could significantly influence and bias the responses of participants. These factors are mainly related to the perceived self-interests of respondents. The study has also produced confirming evidence that a variety of quantitative

and qualitative approaches are more fruitful methodologies for researching in sensitive areas which touch on vested self-interests in the accounting domain.

2. Implications for Audit Practice

In addition to providing insights into the agents of change in the organisation of the Greek auditing profession, the study has illuminated how institutional and political change has impacted, at the micro-level, on auditor behaviour. Notwithstanding the occurrence of bias in the responses of auditors and financial executives to the mail questionnaire, the overall results of this study suggest that the liberalisation of the Greek auditing profession did have a significant impact on auditor behaviour. In particular, auditors gave considerably more emphasis to providing Management Advisory Services (MAS) to audited companies, following the 1992 climacteric. It appears that the provision of such services became a principal focus of audit practice. This significant change in audit practice in Greece following the liberalisation of the profession in 1992 can be related to developments in audit practice in Anglo-Saxon countries, where consultancy services have become a major source of income for many audit firms (see for example *Accountancy Age*, p. 16 September 1993; *Accountancy*, pp. 18-19 July 1995).

The results of the study also suggest that, following liberalisation, auditors gave significantly less emphasis to a number of other audit functions, mostly relating to: a) independence from audited companies, b) public communication of audit functions (writing remarks in auditors' reports and 'whistle blowing'), c) protection of the interests of other stakeholders (non-shareholders), and d) 'true and fair' presentation of financial statements. There is also evidence to suggest that the change in emphasis which auditors gave to various audit functions for Type A companies (insurance, banks, and listed companies - i.e. public interest companies) was not as large as for type B companies (any other kind of companies). The evidence also shows that there was not a significant difference between the three auditor groups SOL SA, EX-SOL,

and SELE, in relation to perceived changes in emphasis attached by auditors to audit functions.

The analysis has pointed to one factor linking the identified effects of the liberalisation of the profession on auditor behaviour: the economic dependence of auditors on audited companies which the audit reforms brought about. It is suggested that the fierce competition between auditors which followed liberalisation and the concomitant need to secure audit appointments led statutory auditors to increasingly bow to the pressure and be attentive to the needs and wants of corporate clients. The 'public watch-dog' role and the service to the public interest ideology appeared to be relegated to a low position in auditors' priority lists because of severe commercial pressures. In their place at the top of the priority list was placed the private interests of corporate clients.

As explained in the introduction to the thesis, "patronage" and "collegiate control" are two market forms of professional arrangements (Johnson, 1972). The evidence presented here suggests that, following liberalisation, the Greek auditing profession moved away from "state patronage" towards "corporate patronage". However, it remains to be seen whether, in the long run, company external auditing in Greece will be defined by the needs and wants of corporate clients ("corporate patronage") or whether, under some form of "collegiate control", audit practice will be defined, to a smaller or larger degree, by the profession itself (*ibid.*).

This study has produced confirming evidence that audit practice is contingent upon the nature and organisation of the auditing profession and the changing legislative framework. While it is dangerous to extrapolate the results of a study into other contexts, the conclusions drawn from this study are relevant to an ongoing debate in Anglo-Saxon and continental European countries concerning the appropriate organisation of the auditing profession, and the relationship between auditors and audited companies (see Hatherly, 1995 for a review of the

debate in the UK). In the European Union this subject mainly arose⁶ from the attempts at harmonisation under the Eighth Directive. The underlying theme is that auditors, being appointed effectively by management, lack independence from their clients (see *Economist*, 28 November 1992, pp. 18-19). To overcome this problem, a number of commentators, both practitioners and academics, have proposed that auditor appointment and fee determination should be overseen and regulated by an independent body (Singleton-Green, 1990; Murphy, 1991; Humphrey *et al.*, 1992, p. vi; Sikka *et al.*, 1992; Mitchell *et al.*, 1993). Although none of these proposals was detailed, it can be said that they advocated a form of organisation for the auditing profession which was somewhat similar to the way in which SOL had operated. The findings of this study seem to support these reformist views, which presumably aimed at fostering greater auditor independence.

Another important, though to some extent expected, finding of this study refers to structural changes in the Greek audit market, following the liberalisation in 1992. The research survey presented clear evidence that, following the liberalisation, audited companies which were subsidiaries of foreign enterprises or had received significant borrowing from abroad tended to appoint members of SELE as their auditors. On the other hand, typical Greek family companies tended to appoint auditors from either SOL SA or EX-SOL. This suggests that, in the long run, the internationalisation of the Greek economy might help the international accounting firms (SELE) to colonise the Greek audit market, gaining the most dynamic, and presumably profitable clients, and leaving the rest for SOL and EX-SOL.

Concluding, this study has produced evidence which suggests that the institutional reforms of the Greek auditing profession in the form of its liberalisation in 1992 had significant internal consequences on professional work itself and the relationship between client and professional.

⁶An increasing interest in the regulatory framework of statutory auditing in Europe is also indicated by the organisation by the European Institute of Advanced Studies in Management (EIASM) of a conference on auditor regulation in Europe, Copenhagen, February 1997.

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